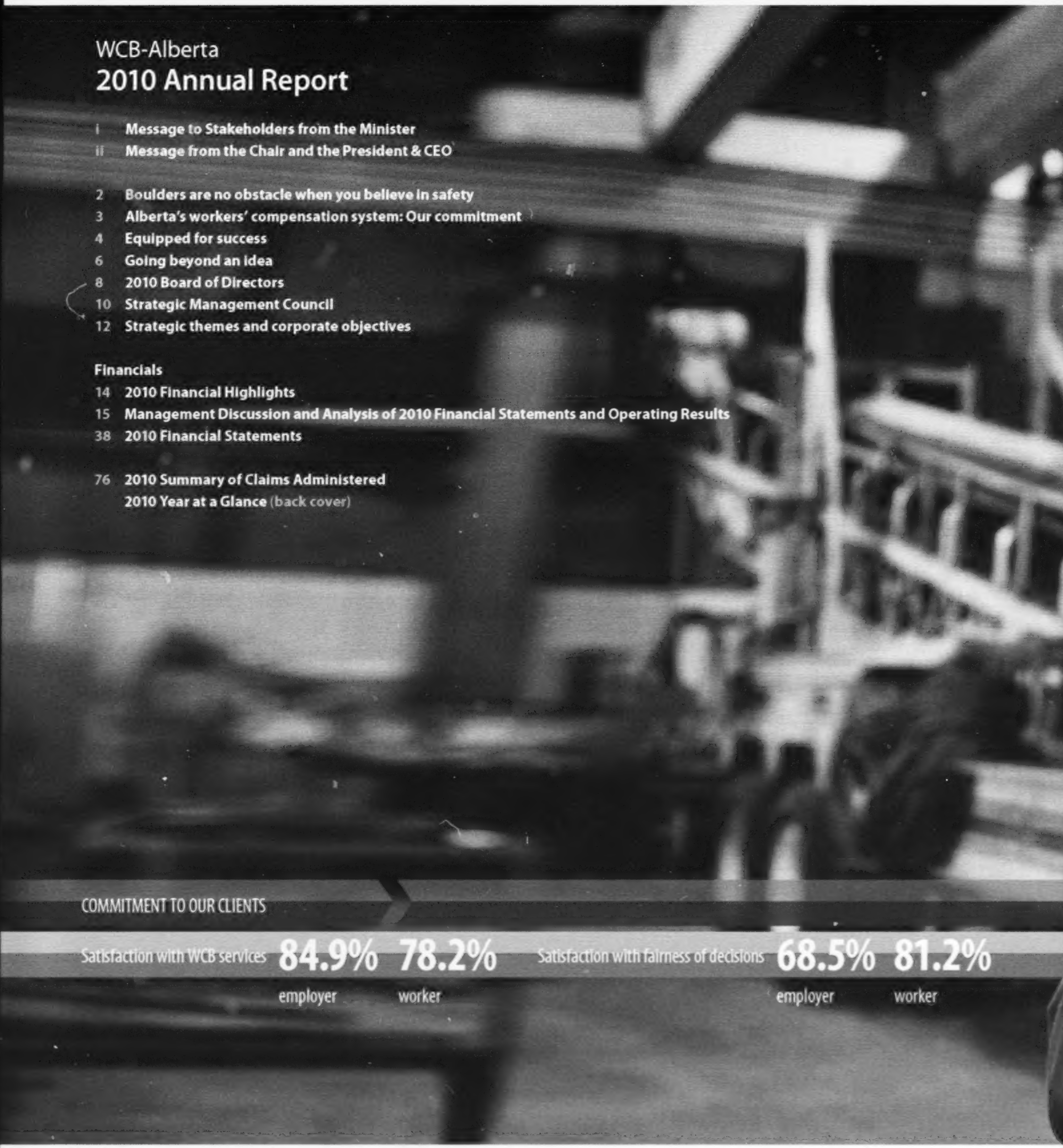

COMMITMENT
Workers' Compensation Board – Alberta 2010 Annual Report



WCB-Alberta

2010 Annual Report

Financials

COMMITMENT TO OUR CLIENTS

Satisfaction with WCB services **84.9%** employer **78.2%** worker

Satisfaction with fairness of decisions **68.5%** employer **81.2%** worker

Message to Stakeholders from the Minister

ALBERTA EMPLOYMENT AND IMMIGRATION

Office of the Minister

Alberta is proactive in its commitment to safe workplaces. Much work has been done this last year in partnership with workers and employers to enhance and improve our employment conditions in Alberta. A key part of our long-term success is having the support of a stable and well-funded workers' compensation system to provide peace of mind.

As you will see in the *2010 Annual Report*, the Workers' Compensation Board – Alberta has delivered positive outcomes and has maintained strong customer relations.

On a financial front, the organization has continued to provide good stewardship of the assets required to pay the current and future costs of claims. Albertans can have confidence that their work injury insurance is both affordable and sustainable in the long term. It is a significant achievement to have among the highest benefit levels for injured workers at the lowest premium costs to employers in the country.

Looking to 2011, our commitment to safety remains steadfast. Work on the government's 10-point plan on occupational health and safety will continue, with additional efforts in transparency, education and enforcement. Alberta's workplace injury rate has been declining steadily for nearly 20 years, and there is still room to improve. We all want Albertans to come home safely at the end of their shifts, both so they can keep building the province's strong future and so they can enjoy the high quality of life that makes Alberta not just a great place to work, but a great place to live.

Thomas A. Lukaszuk
Minister of Employment and Immigration
MLA, Edmonton–Castle Downs

#418 Legislature Building, 10800 - 97 Avenue, Edmonton, Alberta, Canada T5K 2B6 • Telephone 780-415-4800 • Fax 780-422-9556

Message from the Chair and the President & CEO

David B. Carpenter

Guy R. Kerr

Working Albertans: In our business, these are not just words. This is our purpose. When workplace illness or injury removes a worker from the workforce and disrupts lives, our employees' unwavering commitment to helping makes a difference. Through benefits, expert return-to-work planning and timely service, they help injured workers regain their independence and achieve a safe return to work.

Success is our commitment

2010 brought many challenges for our clients and for our staff. Working together, we explored innovative return-to-work solutions that allowed our determined clients to find a way to succeed at work—even when their future had changed due to a permanent disability and a tough economic climate.

Employers also found success as they worked hard to improve their safety and claims performance and to find workable modified work solutions. They provided support for injured employees, helping prevent job loss and financial stress. Always, working together made the difference and we were pleased to offer guidance, information and education to help.

Success in the workers' compensation system takes commitment from all of us.

Fairness matters

Our commitment is deeper than simply helping workers succeed in their rehabilitation, and employers manage through the impact of a workplace injury on their business. We are—at every level of our business, in every interaction we have, in every service or decision we deliver—committed to fairness.

The right claim and benefit decisions lead to the best outcomes for workers. Fair pricing programs promote accountability, safety and good disability management for employers. This balance between our two biggest stakeholder groups results in a sure and sustainable workers' compensation system.

We'll be there when you need us

We are proud to remain one of Canada's most stable and strongly funded systems. For injured workers this means benefit protection, as we hold sufficient funds to pay the current and future costs associated with your claims, and for employers this means a continued focus on running an efficient and effective system that rewards your good performance.

It was a privilege to work with you in 2010.

David B. Carpenter,
Chair, Board of Directors
Workers' Compensation Board – Alberta

Guy R. Kerr,
President & CEO
Workers' Compensation Board – Alberta

90
people for Mixcor Aggregates to keep safe at work

17
years of Certificate of Recognition (COR) commitment

177
fewer days lost to disability in 2010 than in 2008

Occupational Injury Service (OIS) – provides medical intervention and facilitates disability management communication to achieve a safe and sustainable return to work. Visit www.wcb.ab.ca/employers/partner_ois.asp for more information.

COMMITMENT TO GOOD OUTCOMES

Occupational Injury Service (OIS)	OIS employer results			
1,460 employers signed up for OIS	**40%** higher modified work rates	**5** fewer disability days per claim	**12%** lower health care costs	**18%** lower compensation costs

Boulders are no obstacle when you believe in safety

Mixcor Aggregates changes strategy and increases worksite safety

When you take big rocks and make them into small ones, it is labour-intensive work and danger lurks around every rock. That's Mixcor's business.

Tight-knit and family-owned, this Leduc company is focused on its people. Their safety has always been a priority, leading Mixcor to be one of the first companies in its industry to adopt the Certificate of Recognition (COR) program in 1993. Yet, despite its belief in safety, the company was headed toward a 200 per cent poor performance surcharge on its WCB rates. All that changed, thanks to a strong commitment from the company, help from WCB account managers and one man's personal story.

At Mixcor's 2008 annual meeting, an injured co-worker shared how a foot injury had changed his life. Employees felt every word of his painful story and embraced the company's commitment to safety. Gary Zeitner, Mixcor's general manager, says this was a turning point.

Mixcor uses many innovative strategies, including taking advantage of WCB's Occupational Injury Service (OIS), and focuses on positive reinforcement for proactive and safe work practices. The company's safety culture is also made rock solid by having a full-time safety co-ordinator to support staff in the field.

Gary says that people in his industry have big hearts and a passion for building a better Alberta. With the steps Mixcor has taken, you can be sure they will do this safely.

Gary Zeitner
General Manager, Mixcor Aggregates

2013: As Mixcor Aggregates' claims performance improves, their premium surcharge could become a performance discount.

COMMITMENT TO ACCOUNTABILITY

Poor Performance Surcharge (PPS)

641 employers moved out of the PPS program in 2010

Partnerships in Injury Reduction (PIR)

33.6% lower loss ratio achieved by PIR participants than non-participants (claim costs per $100 of WCB premiums paid)

$78.7 million in PIR WCB premium rebates paid for the 2010 program, representing $35 billion in insurable earnings

Alberta's workers' compensation system: Our commitment

The Workers' Compensation Board of Alberta is the neutral administrator of the *Workers' Compensation Act* for the province. As a not-for-profit organization, we operate at arm's length from the provincial government and our operations are funded exclusively through employer premiums. In this role, we are committed to balancing the interests of our stakeholders and ensuring the sustainability of our system.

Our mission

WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.

92 years of commitment to a safe, healthy and strong Alberta

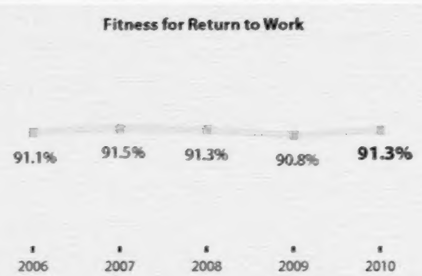
Sir William Meredith, then-Chief Justice of Ontario, outlined the principles of workers' compensation in 1918. The Workers' Compensation Board – Alberta is committed to following these principles under provincial legislation—the *Workers' Compensation Act*.

In Alberta's workers' compensation system:

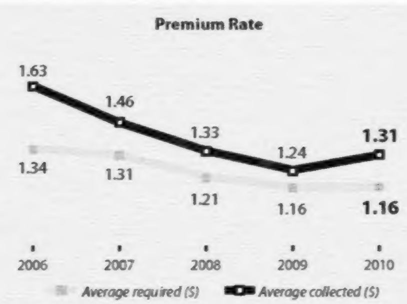
- **Workers receive compensation benefits at no cost for work-related injuries;**
- **Employers assume the direct cost of compensation and, in return, they and their workers receive protection from lawsuits arising from injuries; and**
- **Negligence and fault for the cause of injury are not considerations.**

The workers' compensation system provided protection for over 139,000 **employers and over** 1.7 **million workers in 2010.**

Working collaboratively with workers and employers, we help workers successfully achieve fitness for a safe return to work.



Working to maintain a sustainable system, employer premiums reflect performance.



Equipped for success

Teamwork and ingenuity help Kandy Parkin thrive in a new career

90
kilograms of weight wrenched Kandy Parkin's shoulder

9
barrier-removing devices help Kandy succeed every day

200
sheets of paper handled every day in the new job

1
determined woman

COMMITMENT TO OVERCOMING INJURY

3,959
claims were accepted where the primary injury was a shoulder injury

50
specialized tools for workers were ordered by Paolo in 2010

It was a regular workday for Kandy Parkin until suddenly nearly 200 pounds of meat trapped her arm and wrenched her shoulder, tearing her sternum from her collarbone.

Kandy was working at a meat processing plant when she reached into a machine to clear a blockage. **That day changed everything.**

Despite treatment, surgery, physical therapy and many more attempts at fixing the damage, the use of her left arm and shoulder remained permanently limited. Simple tasks requiring both hands were arduous, preventing her from reaching her full potential.

Eager to start a new career in insurance, she turned to WCB for help. This is when WCB ergonomist Paolo Naccarato and technical instructor René Doucet collaborated and came up with custom devices Kandy could use to do her job more efficiently.

"Paolo knew exactly what I needed as soon as I explained my problems. When he couldn't find it anywhere in the world, he had someone make it!" says Kandy.

Among the many devices specifically chosen and delivered to Kandy were a multi-functional tool that can stuff and open letters and staple and fold papers, and a lightweight reverse clamp that can spread files apart.

"I focus on what she can do. My job is to eliminate barriers so she can focus on her work," Paolo says.

Kandy is succeeding at work and her day-to-day is much more efficient now. Equipped with tools and devices tailored specifically for her, she can provide her customers with service she is proud of and confident to deliver.

WCB ergonomist, Paolo Naccarato

80

ergonomic assessments completed for injured workers in 2010 by Paolo

71%

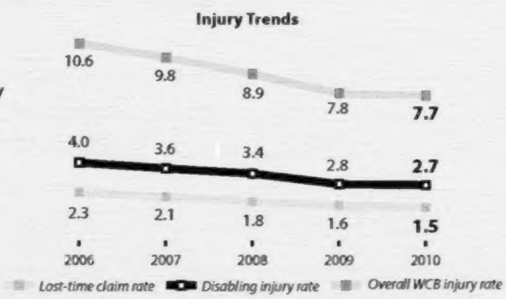
of clients who completed vocational rehabilitation programs are able to earn at least 75 per cent of their income before injury

COMMITMENT TO SAFETY AND DISABILITY MANAGEMENT

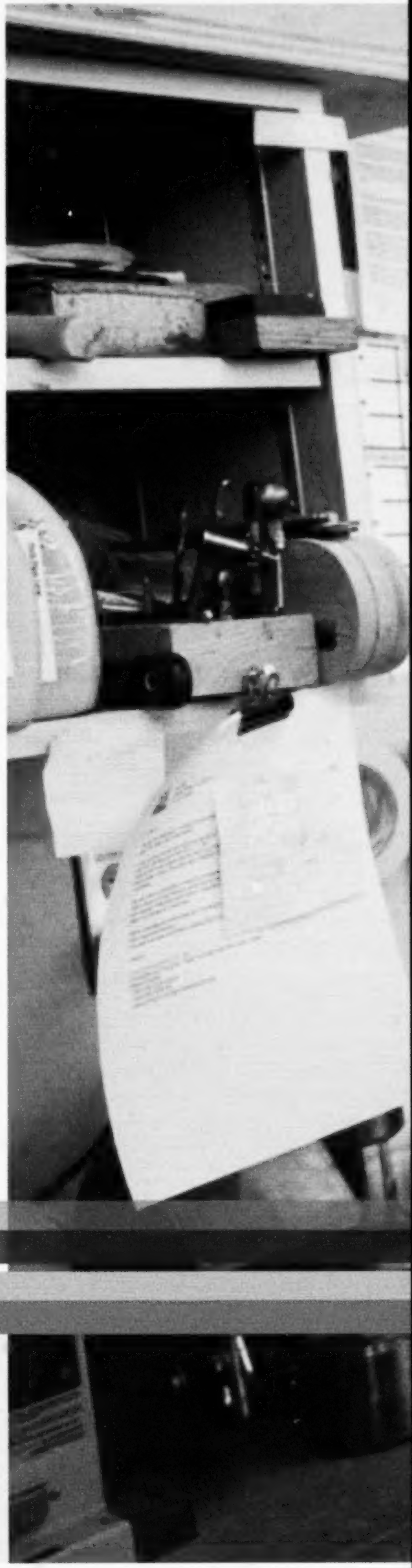
45.3%

of disabling-injury claims resulted in no time away from work because employers provided suitable modified work

Commitment over time has moved injury rates, lost-time claim rates and disabling injury rates in the right direction.



Going beyond an idea



René Doucet turns concepts into action, and action into successful return to work

A challenge, a simple sketch and some odds and ends make René Doucet more than just an ideas man. He is a return-to-work solutions specialist whose every day is committed to helping injured workers.

Over 20 years, René has conceived and built countless pieces of innovative rehabilitation equipment and barrier-removing devices to help workers get back on the job successfully.

In Kandy Parkin's case, moving forward with limited arm motion, he had a photograph from Australia of a multi-functional letter opening and stuffing tool that could be operated with one hand. It took him three to four days to make the first prototype, and a couple more days to make the device work exactly the way Kandy needed.

Paolo Naccarato, *WCB ergonomist and* **René Doucet**, *technical instructor*

René rarely works alone. With help from WCB's ergonomist Paolo Naccarato and occupational and physical therapists, he creates equipment that closely mimics an injured person's day-to-day work—maximizing rehabilitation efforts. His skilful hands and innovative thinking have created many of Millard Health's remarkable work-simulation areas.

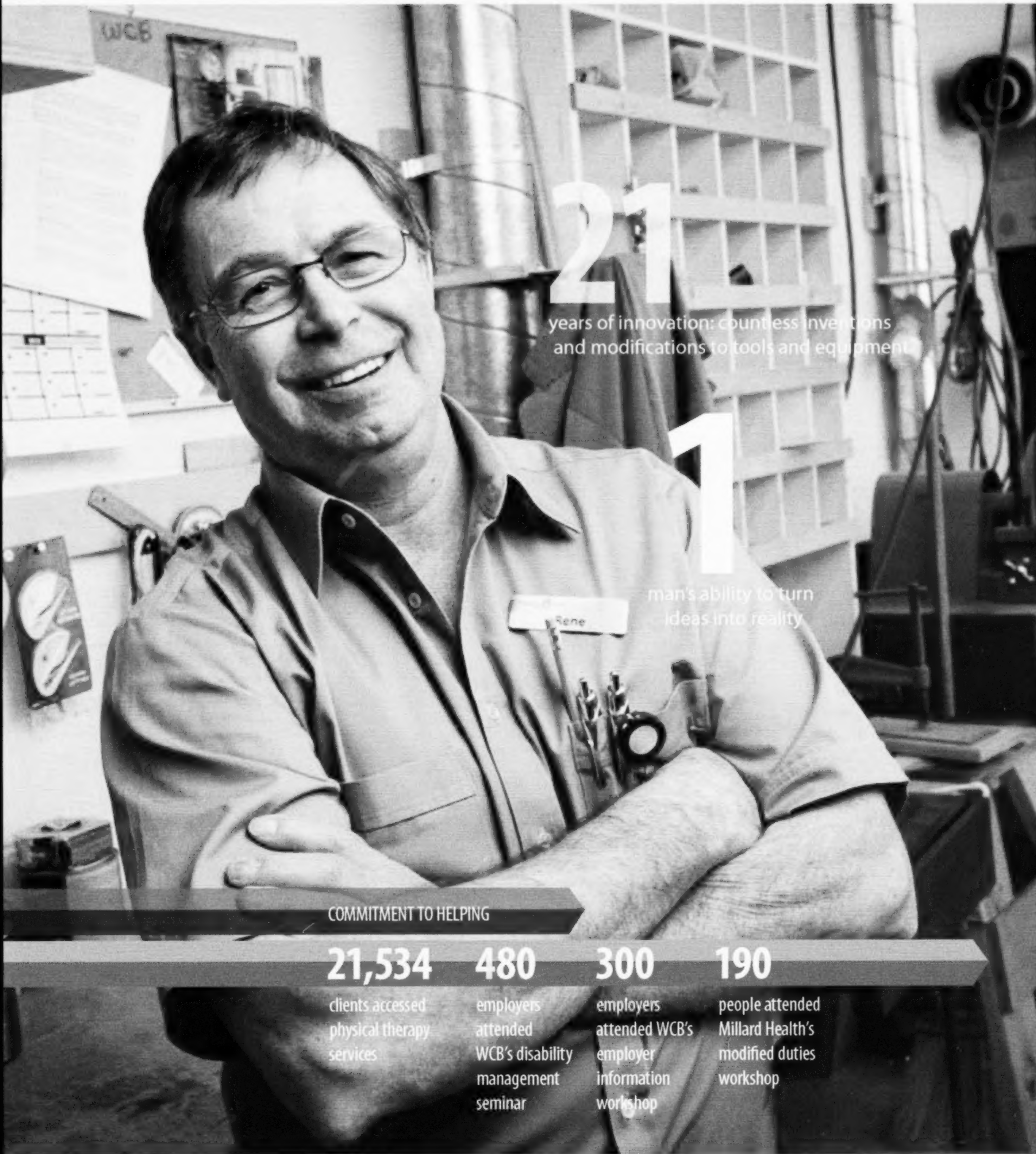
The effect René's work has had on Millard clients extends beyond the equipment he makes. His passion is built from experience. After he, himself, was hurt in 1987, he relates to overcoming a workplace injury. Knowing what it is like to be in their position, he motivates and encourages others to consider new ways of doing their jobs so they too can succeed.

"I always try to help out a client in need, whether by something I can do or say. I give my work my best, just get it done and hope that it works," says René.

COMMITMENT TO REHABILITATION SUPPORT

13,369
clients accessed services at Millard Health to help them recover

9,566
medical assistive devices provided to clients



21

years of innovation: countless inventions and modifications to tools and equipment

1

man's ability to turn ideas into reality

COMMITMENT TO HELPING

21,534
clients accessed physical therapy services

480
employers attended WCB's disability management seminar

300
employers attended WCB's employer information workshop

190
people attended Millard Health's modified duties workshop

2010 Board of Directors

The Board of Directors plays a significant role in ensuring WCB-Alberta's accountability. The board is responsible and accountable to the Minister of Alberta Employment and Immigration for WCB-Alberta as defined in the *Workers' Compensation Act* and corporate governance policy.[1]

Representative of the interests of **Employers**

Guy R. Kerr
President & CEO

David B. Carpenter
Chair, Board of Directors

Fauzia Lalani

Bob Normand

Don Oborowsky

Committees of the Board of Directors

Board committees review information from all areas of the business, and identify and assess risks to help WCB-Alberta's executive team make informed decisions.

Audit Committee
Reviews the audit and risk management functions of the organization, including financial statements, the annual report, internal controls over financial reporting, external audit processes and management audit

Members: ***Norbert Van Wyk*, Bob Normand, Fauzia Lalani and Mia Norrie***

Finance Committee
Oversees the organization's financial strategies and performance, from the budget and financial plan to economic and business assumptions, premium-rate setting and investment management

Members: ***Norbert Van Wyk*, Bob Normand, Fauzia Lalani and Mia Norrie***

[1] www.wcb.ab.ca/public/board.asp

**Committee chair*

David Carpenter, Chair, Board of Directors, and Guy Kerr, President & CEO, are ex-officio members of all committees.

COMMITMENT TO THE ENVIRONMENT

Care for our community extends to the environment. Together, we know we make a difference. In 2010, we began mixed recycling at our Edmonton buildings and completed an energy audit to learn how to better conserve energy and measure our efforts.

25%
of our energy consumption is from renewable energy

44%
reduction in our utility consumption (gas, electricity and water)

48,490
beverage containers recycled with proceeds donated to Edmonton's Hope Mission

In their governance role, members regularly review the strategic direction for the organization. Using their diverse areas of expertise, the Board of Directors ensures WCB-Alberta remains true to its mandate and that the health of the system is protected for the long term.

Representative of the interests of Workers

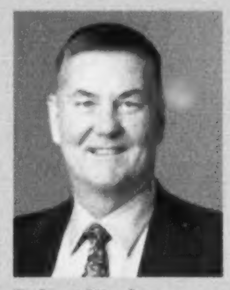
Tim Brower

Richard Mirasty

Mia Norrie

Representative of the interests of the General Public

Norbert Van Wyk



Robert Nicolay

Governance Committee
Reviews governance policy and ensures the Board of Directors consistently demonstrates a best-practice approach in its role

Members: Tim Brower, Don Oborowsky, Robert Nicolay and Norbert Van Wyk*

Human Resource and Compensation Committee
Oversees human resource matters, including management and compensation philosophies, corporate goals, objectives and performance measures

Members: Don Oborowsky, Robert Nicolay and Mia Norrie*

Policy Committee
Reviews policies and legislative changes related to benefits and premiums, and ensures stakeholder involvement in policy development and revision

Members: Fauzia Lalani, Tim Brower and Richard Mirasty*

WCB's Jarvis building won the Building Operators and Managers Association's (BOMA) Earth Award for the Edmonton area, demonstrating a commitment to energy efficiency and the long life span of the building. The property also won the Building Excellence and Toby Award (Office Building of the Year) in its category.

180,553
fewer disposable coffee cups used than in 2009

91
kilograms of trash collected when cleaning our block during Edmonton's Capital City Clean Up

155
trees saved by using 1,199,000 fewer sheets of paper

Strategic Management Council

WCB-Alberta's senior executive team sets high standards and a clear direction to engage employees in the workers' compensation system. In turn, employees have delivered positive outcomes for workers and employers and have enthusiastically embraced a culture of achievement and accountability.

Guy R. Kerr
President & CEO

We set high expectations. Our employees delivered.

Their commitment to achieving positive return-to-work results and their unwavering belief in fairness helped our clients by finding every possible option and opportunity for them despite a challenging economy in 2010.

Their work on behalf of and in partnership with our stakeholders was extraordinary and inspiring to me. We are most effective when we work together.

Roxy Shulha-McKay
VP Employee and Corporate Services

We set the bar high and stakeholders rely on us to deliver the right services and benefits at the right time. To ensure our success, we strive to search, recruit and train top-notch people. As an employer of choice, we are also committed to retaining those folks and fostering an environment of learning and growth.

Our clients deserve the best from us and we are committed to delivering it. Our people are our greatest resource.

Douglas Mah
Secretary and General Counsel

Albertans have a strong voice in their workers' compensation system. Through an appeals advisory service for injured workers we ensure we maintain a balanced system that is accessible and open. With offices in Edmonton and Calgary, the Office of the Appeals Advisor (OAA) provides service to claimants throughout Alberta at no cost—ever.

We work proactively to uphold the principles of workers' compensation and to ensure that legislation and policy are applied fairly, accurately and consistently at all levels.

COMMITMENT TO OUR COMMUNITY

WCB employees make a difference.

We bring our passion for our community to work and, with help from our colleagues, we help many.

$27,000 raised for prostate cancer research during Movember

242 units of blood shared to help save 726 lives

$21,000 donated to the Lurana Shelter through our Edmonton Indy parking fundraiser

$57,000 raised with our partners through our charity golf tournament for the Canadian Paraplegic Association (Alberta)

Ron Helmhold
Chief Financial Officer

Wendy King
VP Disability and Information Management

Dieter Brunsch
VP Customer Service and Risk Management

WCB-Alberta's advantage continues to be that we have the right plans, the right people and the right services to maintain stability and minimize the impact on the people who matter most—workers and employers.

We have experienced volatility over the past few years, but, through our financial strategies and policies, we will continue to do everything in our control to maintain a stable foundation for the workers' compensation system.

The people we care for can count on our expertise, diligence and commitment in their journey to recovery and self-sufficiency.

We do our utmost to ensure our staff is well equipped with the skills and resources to provide the support our clients need to achieve success and to deliver quality return-to-work results.

As the insurer of workplace injuries and illness, we leverage our pricing of workers' compensation insurance to introduce greater accountability within a collective liability system.

By providing a stronger link between claim costs and insurance premiums through programs like experience rating, Partnerships in Injury Reduction and Industry Custom Pricing, we not only introduce greater accountability, but also provide stronger financial rewards for successful investments in health, safety and disability management.

COMMITMENT TO EMPLOYEE ENGAGEMENT

96%

of employees find WCB a good place to work[1]

95%

of employees agree WCB is committed to doing quality work

6

years as a top employer. WCB has been selected by Mediacorp Canada Inc. as one of Alberta's top 50 employers and one of Canada's best employers for recent graduates.

[1] The employee survey is completed annually. In 2010, 83.2% of employees shared their feedback with the executive team.

Strategic themes and corporate objectives

WCB's vision: ***Albertans working—a safe, healthy and strong Alberta***

Our vision communicates a compelling picture of how we see the workers' compensation system working at its best. Building objectives and delivering outcomes that move us closer to this vision is fundamental to WCB-Alberta's successful administration of a fair and balanced *Workers' Compensation Act.*

	MEASURE	OBJECTIVE
1 Focus on return to work We are committed to helping our clients succeed following a work injury or illness.	Find safe modified work	Proactively negotiate modified work on behalf of injured workers (on cases older than 21 days) and improve the percentage of files with modified work performed and documented contact with an employer to 37.25% by the end of 2010.
	Achieve wage quality	Through timely vocational interventions and case planning, ensure 50% of our clients who are eligible for a permanent wage loss benefit have the ability to earn 75% or more of their pre-injury income.
	Maximize earnings potential	Through effective return-to-work planning, help injured workers maximize their post-injury earnings. Do not exceed capitalized economic loss payment (ELP) budget of $60 million by more than 10%.
	Help clients succeed	Through timely service interventions and managing return-to-work outcomes, help workers achieve their fitness for work. Do not exceed 862 cases where total disablement lasts longer than three months.
2 Commitment to fairness We are committed to the neutral and balanced application of the *Workers' Compensation Act.*	Engage clients in planning	Deliver superior customer service by achieving a quality score of 85% on key decision communication letters.
3 Leveraging prevention We are committed to supporting our clients in their efforts to build safe and healthy workplaces.	Foster employer accountability	Increase the number of workers covered by employers participating in the voluntary Industry Custom Pricing (ICP) program by 20%.
	Promote safe workplaces	Increase the number of Partnerships in Injury Reduction companies covered by a Certificate of Recognition (COR) by 5%.
4 Financial stability We are committed to building a stable system that is there to help our clients when they need it.	Maintain a stable system	Through operational initiatives, achieve transaction-year claim costs that do not exceed the 2010 budget by more than 5%.
	Maintain a stable system	Through operational initiatives, achieve 95% of the premium revenue target set for 2010.

Through our strategic plan[1], we focus our business on four key areas of impact to the overall health and sustainability of the workers' compensation system. With this sharp focus, we establish yearly corporate objectives[2] that turn our strategy into action and have a positive impact on our stakeholders.

ANALYSIS	RESULT
Achieved 40.2%. We work hard to help employers and workers identify appropriate modified work because it reduces recovery time, promotes job security, maintains financial stability and reduces stress and worry. Modified work helps workers focus on what they can do.	Beat target by 8%
Achieved 46.9%. Vocational rehabilitation services helped workers with severe injuries mitigate the challenges of a lagging economy. For all clients who received vocational rehabilitation services, 71% were employable at a wage higher than 75% of the income they were earning before their workplace injury.	6% below target
Achieved ELP costs of $71.3 million, a variance of 18.8% from budget. Strong vocational planning created viable employment options for workers and helped reduce dependency on long-term wage supplements. However, a lagging economy impacted post-injury wages, leading to higher than expected wage-loss supplement payments.	9% above target
Achieved a 93.3% actual return-to-work rate and beat the target by 72 cases. Most injured workers are able to resume employment very quickly following a workplace injury. The average case lasted approximately 36 days in 2010. However, some cases can last much longer, depending on the severity of injury and other factors. Studies have consistently shown that chronic disability is a poor outcome for injured workers, and time is of the essence. Case managers and adjudicators remained vigilant and determined to help their clients achieve the best path for a safe return to work.	Beat target by 8%
Achieved 91%. Good process, good outcomes and good communication help us develop the right plans with our clients. Decision communication is critically important in determining and achieving the path to success, and our high decision writing standards demand significant care and attention at every decision point. How we craft and document our plans determines how our clients understand their entitlement, responsibilities and opportunities. Our return-to-work plan is the tangible "product" of case planning and brings the *Workers' Compensation Act* to life.	Beat target by 7%
Achieved an increase of 34%. Through pricing programs like ICP, we offer flexibility while strengthening accountability by more closely reflecting an employer's claims performance within our collective liability insurance model. Currently, ICP industries represent approximately 29% of the insurable earnings in the province.	Beat target by 70%
Achieved an increase of 6.9%. With Certifying Partners and Alberta Employment and Immigration, we have worked diligently to encourage employers to earn or renew a COR as an opportunity to impact the number and severity of workplace injuries in the province. Employers have continued to value prevention and disability management, and have worked hard to either achieve or maintain their COR status in 2010.	Beat target by 38%
Achieved a variance of 4.6%. Transaction-year claim costs are within target, ending the year at $584.1 million. This is $25.5 million above our budget of $558.6 million.	On target
Achieved 104.8% of target. Premium revenues are above target, ending the year at $1,031.5 million. This is 4.8% ove. our 2010 budget of $984.7 million.	Beat target by 10%

[1] Our strategic plan is posted on our website at www.wcb.ab.ca/pdfs/public/Strat_plan04.pdf
[2] Our corporate scorecard is posted annually on our website at www.wcb.ab.ca/public/accountability.asp

2010 Financial Highlights

Premium revenue of $1,031.5 million was above budget by $46.8 million and $123.0 million higher than in 2009, reflecting higher wage growth.

Average premium rate of $1.31 per $100.00 of insurable earnings was $0.01 under budget. This is 5.6% higher than the average rate collected in 2009.

Investment revenue of $326.7 million was $85.0 million above budget and $106.7 million higher than in 2009, reflecting continued strong recovery in equity markets and higher yields on corporate bonds.

Claim costs of $1,093.9 million were $116.2 million above budget and $389.2 million higher than in 2009, due primarily to actuarial adjustments.

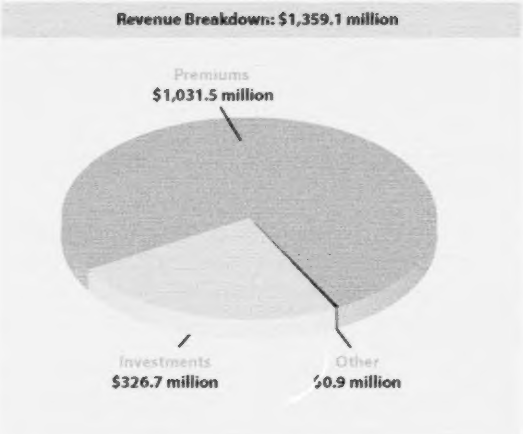
Administration expenses of $79.4 million were 3.4% under budget and $0.8 million higher than in 2009.

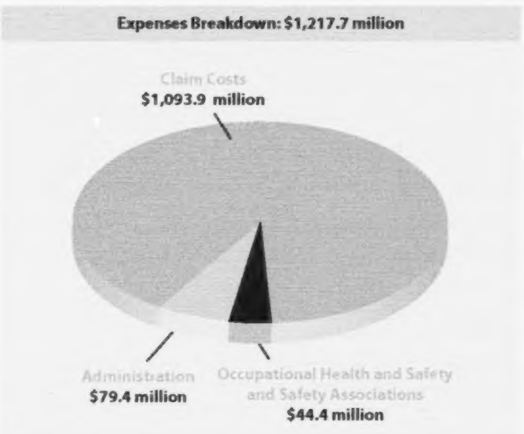
Operating surplus of $141.4 million was $19.5 million above budget and $165.4 million lower than in 2009.

Funded Position of $1,662.0 million increased by $228.8 million over 2009.

Investment portfolio increased by $535.6 million, or 8.5% above 2009 on a fair-value basis.

Claim benefit liabilities rose $371.9 million, a 7.6% increase over 2009.





WCB-Alberta

Management Discussion and Analysis of Financial Statements and Operating Results

For the year Ended December 31, 2010

Management Discussion and Analysis of 2010 Financial Statements and Operating Results

The Management Discussion and Analysis (MD&A) provides management's perspective on key issues that affect current and future performance of the Workers' Compensation Board – Alberta (WCB-Alberta, WCB). The MD&A, prepared as at April 19, 2011, should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2010.

Forward-looking statements

This report contains forward-looking statements about certain matters that are by their nature subject to many risks and uncertainties, which may cause actual results to differ materially from the statements made herein. Forward-looking statements include, but are not limited to, WCB objectives, strategies, targeted and expected financial results; and the outlook for WCB's business and for the Alberta and global economies. Risks and uncertainties include, but are not limited to, changing market, industry and general economic factors or conditions; changes in legislation affecting WCB policies and practices; changes in accounting standards; the ability to retain and recruit qualified personnel; and other risks, known or unknown. Some are predictable or within WCB control; many are not. The reader is hereby cautioned to not place undue reliance on these forward-looking statements.

Unless otherwise indicated, all amounts shown are in millions of Canadian dollars.

Business Overview

Corporate profile

Founded in 1918, WCB-Alberta is a not-for-profit organization with a legislative mandate under the *Workers' Compensation Act* (the Act) to administer the workers' compensation system for the province of Alberta. While accountable to the Minister of Employment and Immigration, WCB is not a provincial government department or Crown corporation, but is independently funded and operated as an insurance enterprise. Through the payment of premiums, over 139,000 employers fund the system, which covers more than 1.7 million workers.

WCB-Alberta's mandate

In Canada, workers' compensation is a no-fault disability insurance system that protects both employers and workers against the economic impact of work-related injuries and occupational diseases. Based on the Meredith Principles,[1] the system covers injured workers for lost employment income and provides health care, rehabilitation and other services required because of a work-related injury, while employers are shielded from litigation. This system brings economic stability to the workplace through collective liability that minimizes the risks and expenses of injury. To achieve these objectives, the Act established the Accident Fund and imposed a statutory obligation on WCB to ensure that it be fully funded.

At the highest and simplest level, WCB is involved in two significant and complementary business activities: customer operations and financial management.

Customer operations provides disability insurance for workplace injuries. Key business processes include assessment and collection of premiums from employers, payment of compensation benefits to injured workers and return-to-work services.

Financial management uses an integrated risk-based approach to managing assets and liabilities, generating an adequate return on invested assets to pay for claim-related obligations. Key business processes include strategic financial planning, rate setting, investment management, claim benefit liability valuation, financial risk management and financial-performance reporting. Strong financial management not only ensures security of benefits for workers and fair premiums for employers, but also provides appropriate tools for evaluating how effectively WCB is meeting its financial obligations.

WCB vision and mission

The core principles set out in WCB's vision and mission shape the corporate beliefs and values that guide the organization's operating philosophy:

> **Vision**
> *Albertans working—a safe, healthy and strong Alberta*
>
> **Mission**
> *WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.*

WCB's strategic vision is to make a positive and lasting impact on the people, society and economy of Alberta through what it does, while the mission statement describes the operating guidelines for how it intends to conduct business.

[1] *Refer to the Glossary for an outline of the concepts.*

2010 Financial Performance

OPERATING HIGHLIGHTS

The major themes underscoring WCB-Alberta's financial results for the year centre around the Alberta economy and the global capital markets. WCB's financial position continued to be positively impacted by strong returns in equity and corporate bond prices in 2010. Customer operations continued their commitment to service excellence and delivered outcomes that contributed positively to the operating results for the year. The important themes that underscore the 2010 performance include the following:

- Total revenue of $1,359.1 million offset by total expenses of $1,217.7 million yields an operating surplus of $141.4 million. These operating results contributed to the Funded Position of $1,662.0 million, or 129.4%, which is net of special dividends of $230.1 million payable in 2011. The dividends arise primarily from very strong investment returns.
- Total premium revenue of $1,031.5 million is up 13.5% from $908.5 million in 2009, reflecting an increase in insurable earnings and a shift to higher rated industries in 2010.
- Investment revenue is up in 2010 at $326.7 million, compared to $220.0 million in 2009, due to a continued strong recovery in equity markets and higher yields realized on corporate bonds. The continued recovery in capital markets led to a return of 10.2% for WCB's investment portfolio for 2010, down slightly from the 2009 return of 13.8%.
- Total claim costs of $1,093.9 million increased $389.2 million from the previous year due primarily to actuarial adjustments, wage growth and other inflationary costs that increased future liability amounts. Average claim duration increased again slightly in 2010, ending the year at 36.1 days, as there continued to be fewer modified work opportunities and a continued decline of claims receiving benefits. Claim volume of 135,024 is down 3.7% from 2009, slightly larger than the provincial employment decline of 0.4%.[ii] Lost-time claim volume, a subset of total claim volume, also saw a related decline of 5.9% during the year. Administration and other expenses of $123.8 million brought total expenses to $1,217.7 million.

[ii] *Alberta Employment and Immigration, Labour Force Statistics – December 2010.*

The table below summarizes the major contributors to WCB's operating surplus of $141.4 million.

($ millions)	2010 Budget	2010 Actual	2009 Actual
Premiums			
Surplus premium revenue resulting from the actual premium rate collected of $1.31 (2009 – $1.24) being higher than the required premium rate of $1.16 (2009 – $1.16), based on insurable earnings	$ 52.9	**$ 115.0**	$ 55.3
Investments			
Net excess (deficiency) of investment income on the interest requirement of $259.0 million (2009 – $257.9 million) on the claim benefit liability	(14.7)	**67.7**	(37.9)
Claim benefit liabilities			
Gains (losses) due to changes in actuarial methods and assumptions	-	**(176.3)**	96.7
Actuarial gains due to claims experience	83.5	**113.0**	194.9
Other			
Other revenue (expense) items	0.2	**22.0**	(2.2)
Operating surplus	$ 121.9	**$ 141.4**	$ 306.8

In its simplest terms, the funding model for WCB operates on the premise that in a given year, premiums cover all operating costs on a break-even basis, while investment returns are expected to cover the annual interest requirement on the liability. Operating surpluses or deficits arise when actual costs and returns are different from forecasted expectations, which rely on economic and business assumptions based on available information at a point in time. Given the volatile performance of local and global economies, forecasting is subject to a great deal of uncertainty and risk. Consequently, actual results will likely differ significantly from even the most rigorously developed plans.

Customer Operations

PREMIUMS

Insurable earnings

$1.8 billion (2.4%) over budget

Alberta's economy showed a steady recovery in 2010, which resulted in a better-than-expected increase in payrolls, increasing 2010 insurable earnings to $76.4 billion, 2.4% higher than the budget of $74.6 billion. Insurable earnings were higher in seven out of nine sectors compared to budget, with mining, oil & gas (11.0%) and agriculture & forestry (7.2%) showing the highest increases over budget for the year.

$3.8 billion (5.2%) over prior year

Relatively high wage escalation during the year was tempered by a slight decline in Alberta employment, resulting in an increase of 5.2% in insurable earnings for 2010. Mining, oil & gas and construction sectors experienced the greatest increase over 2009, with 16.6% and 8.0% increases respectively.

Premium revenue

$46.8 million (4.8%) over budget

The 2010 positive variance in premium revenue of $46.8 million was due to an increase in insurable earnings combined with non-rate related premium revenue totalling $32.5 million. Non-rate related premiums include charges to self-insured accounts, interest and penalties and prior year payroll adjustments.

$123.0 million (13.5%) over prior year

The increase in revenue from $908.5 million to $1,031.5 million was due to an increase in insurable earnings in 2010 combined with a shift in insurable earnings into higher-rated industries.

PREMIUM RATES

Total premium revenue requirements for rate-setting purposes are based on projected operating expenses for the year. Base revenue requirements are composed of fully funded costs of claims arising in the current year, administration costs related to those claims, general administration expenses for WCB operations and transfer levies.

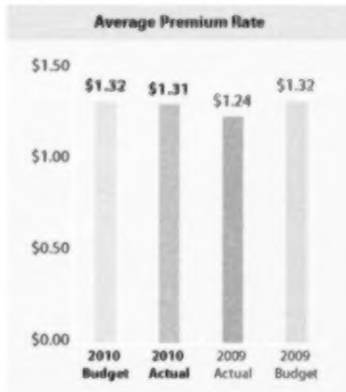
Average premium rate

$0.01 (-0.8%) under budget

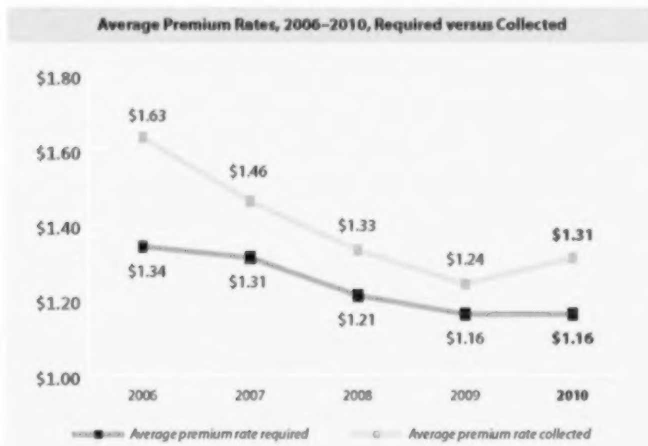
The shift of the workforce back to higher-rated industries in 2010 was slightly lower than budgeted. This, combined with a marginal decrease in employment, resulted in an average actual collected rate of $1.31, $0.01 below budget.

No budgeted change from prior year

The average budgeted premium rate remained constant in 2010 at $1.32. The projected increases in operating costs in 2010 were to be offset by projected increases in insurable earnings over 2009.



The chart presents a five-year trend comparison of required versus collected premium rates. The Funding Policy stipulates that the required rate and resulting revenue cover the current-year fully funded claim costs.



The 2010 premium requirement and rate were based on projected fully funded claim costs and insurable earnings using the best information available in early Q4 2009. Better-than-expected cost performance continued to keep the required rate down below the collected rate for fiscal 2010. The surplus from premium revenue offset the unfavourable variance in claim costs, resulting in an increase in operating surplus.

CLAIM COSTS

Claim costs are an estimate of current and future costs arising from compensable injuries occurring in 2010, the future costs to administer these claims and claim benefit liability adjustments relating to prior years' injuries.

Claim costs

$116.2 million (11.9%) over budget

Costs are higher due to changes in actuarial assumptions to the claim benefit liability. These increased costs were partially offset by lower current-year costs associated with lower claim volume in 2010.

$389.2 million (55.2%) over prior year

Prior year costs included one-time favourable actuarial adjustments, which significantly lowered overall costs for 2009 compared to the 2009 budget. The 2009 adjustments, coupled with higher-than-expected actuarial adjustments in 2010, resulted in an increase in costs compared to 2009.

Claim volume

Lost-time claim (LTC) volume fell from 27,100 in 2009 to 25,500 in 2010, a drop of 5.9%.

The LTC projected rate continued to decline to 1.5 claims per 100 workers, a decrease of 4.7%. Similarly, the disabling-injury rate (LTC + modified-work-only cases = disabling injuries) dropped by 1.4%, to 2.7 disabling injuries per 100 workers.

Claim duration

Claim duration (average elapsed time from injury to return to work) increased once again in 2010 to 36.1 days, up from 35.2 days in 2009. This increase is primarily due to fewer modified work opportunities during the year.

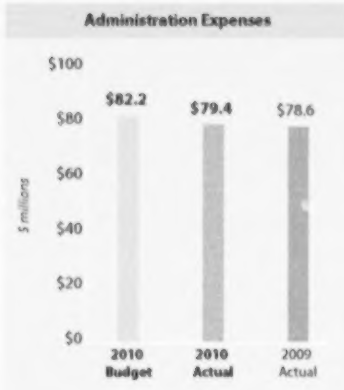
ADMINISTRATION

$2.8 million (3.4%) under budget

Administration came in under budget, due to effective expenditure management.

$0.8 million (1.0%) higher than prior year

The increase over 2009 reflects inflationary impacts offset by lower facility costs in 2010. Administration expenses exclude claim-related administration costs (2010 – $86.3 million, 2009 – $83.3 million) that are included in claim costs.



Financial Management

INVESTMENTS

Investment revenue

$85.0 million (35.2%) over budget

$106.7 million (48.5%) over prior year

The primary contributor to the 2010 budget variance and increase from 2009 was the impact of a continued strong recovery in equity markets and increased income from bond investments, specifically corporate bonds, which earned yields that were higher than budget.

Investment returns played a key role in WCB's 2010 financial results. The following discussion provides an overview of the economic and market forces that had a direct impact on WCB's investment portfolio and returns.

Capital markets overview

2010 was another year of uncertainty and large swings in capital market performance and sentiment. The year started out strongly, but then reversed in the second quarter due to concerns over government deficits and total debt levels in several European countries. Then in mid-August, the U.S. Federal Reserve announced it was intending to launch another program of direct U.S. bond purchases. This monetary policy action became widely known as QE2. The purpose was to keep interest rates low and raise asset prices for both bonds and equities. From that perspective, it was successful; bond and equity prices rose sharply from the announcement date through to the end of the year.

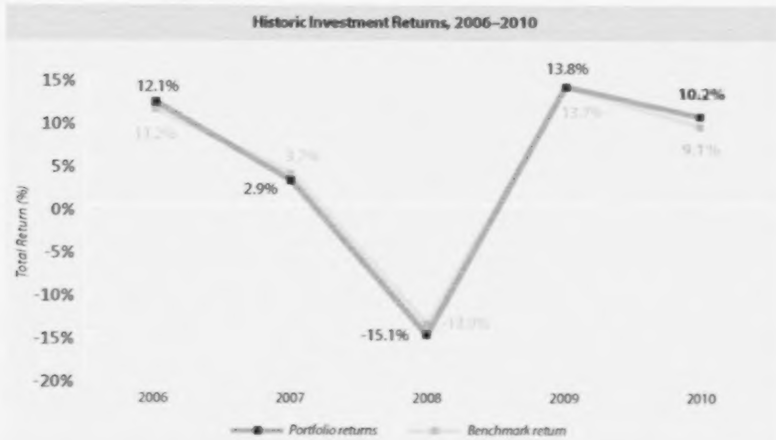
Portfolio performance

Market returns

The portfolio earned a nominal market rate of return of 10.2% for 2010 (1.1% above the policy benchmark) and 2.3% for the four-year period ended December 31, 2010 (0.3% below the policy benchmark). The primary goal of the investment portfolio is to earn a real rate of return (nominal rate less inflation) that meets or exceeds the actuarial required real rate of return. On this basis, the real rate of return for 2010 of 9.2% (nominal rate of 10.2% less inflation of 1.0%) was well above the actuarial required rate of 3.0%. The four-year annualized return of 2.3% was earned over a period of very high volatility in capital markets.

Benchmark returns

The benchmark return is composed of benchmark index returns for each asset class, weighted by the policy asset mix. Performance versus the benchmark is a relative measure of success in implementing the investment program through active management.



For further information on WCB's investments and Investment Policy, the *2010 Annual Investment Report* can be found online at www.wcb.ab.ca.

CLAIM BENEFIT LIABILITIES

At the end of each fiscal year, WCB determines its claim benefit liabilities for all injuries that have taken place up to that date. These liabilities represent the actuarial present value of all future benefit and related administration costs, excluding costs attributable to self-insured employers. As at December 31, 2010, claim benefit liabilities had aggregated to $5,278.9 million, an increase of $371.9 million over 2009.

Significant changes in liabilities

The overall $371.9 million increase in claim benefit liabilities is attributable to the following:

($ millions)		2010 changes
Provision for future costs of current-year injuries	$	556.8
Interest requirement on the liability		259.0
Benefit payments for prior years' injuries		(507.2)
Firefighters' Primary Site Cancer Regulation changes		12.1
Changes in actuarial methods and assumptions		164.2
Claims experience gains		(113.0)
	$	371.9

Actuarial methods and assumptions

The following changes in the actuarial methods and assumptions increased claim benefit liabilities by $164.2 million:

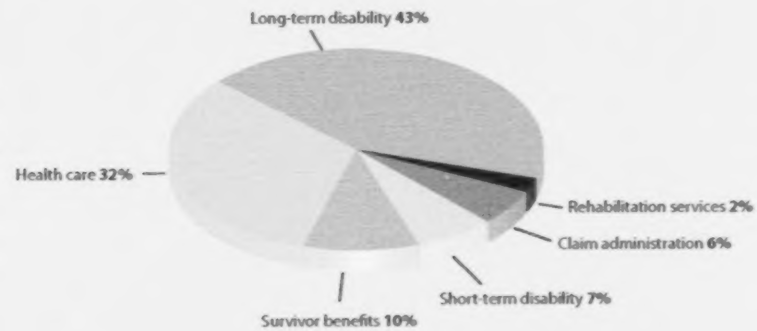
- The real rate of return assumption was revised to reflect lower expected bond returns in the short term, resulting in a two-stage assumption of 2% over the period from 2011 to 2014 and 3% thereafter ($153.2 million increase).
- Updates were made to other benefit category assumptions ($11.0 million increase).

Impact of claims experience

Differences between actual experience and what was expected in the prior valuation result in experience losses (which increase the liability) or gains (which decrease the liability). The impact of actual claims experience resulted in an overall gain of $113.0 million that includes the following areas:

($ millions)		2010 impact
Actual cost-of-living and inflation different than expected	$	40.1
Actual claim costs lower than expected		26.6
Other experience gains		46.3
	$	113.0

Claim Benefit Liabilities, December 31, 2010



Sensitivity of actuarial assumptions

Claim benefit liabilities are estimated using economic, demographic and other actuarial assumptions. Because of the large values involved, the liability estimates are highly sensitive to even small changes in these actuarial assumptions.

Details of the changes in claim benefit liabilities for 2010, as well as further discussion of the sensitivity of the liabilities to the changes in assumptions, can be found in Note 12, Claim Benefit Liabilities, in the accompanying financial statements and notes.

FUNDING POLICY

The Funding Policy is the primary instrument through which WCB manages its capital or fund structure and provides direction for setting premium rates and optimum funding level. The Funding Policy can evolve—through rigorous management review, stakeholder consultation and Board of Directors approval—to address changing economic and financial circumstances. Details of the Funding Policy may be found under WCB Information in the Policy and Legislation section of WCB's website at www.wcb.ab.ca.

Funding principles and objectives

The strategic aim of funding and investment policies is to strive for balance between financial risk (i.e., volatility), investment returns and funding stability. Specifically, the Funding Policy embodies these financial objectives:

- Minimize the risk of becoming unfunded.
- Minimize cost volatility to employers.
- Charge premiums that reflect the cost of current-year claims.

The funding mechanisms that evolve from these objectives address those risks that may affect the financial stability of WCB—primarily investment volatility. Funding Policy rules are in place to minimize these risks, with ongoing monitoring and evaluation to ensure they continue to respond effectively to changing economic conditions.

Funding rules

The rules guiding financial decisions under the Funding Policy include the following:

- Premium-rate design based on current-year fully funded claim costs (i.e., full cost recovery with no rate subsidization or smoothing)
- Minimum premium cost to employers set at 60% of industry-rated premiums
- Multiple target ranges to guide funding decisions and accommodate volatility
- Surplus distribution dividend or fund replenishment levy used as funding adjustment mechanisms

These rules help achieve equity and consistency in the attribution of costs among employers and ensure intergenerational equity by requiring current employers to cover the cost of current-year injuries.

Funding allocations

The Accident Fund represents all WCB assets available to discharge its legislative mandate. The allocation of assets to each of WCB's fiduciary obligations is expressed as a percentage of total liabilities as at the reporting date:

- Fully funded status is achieved when assets are sufficient for payment of all current and future compensation and related administration costs (target level: 100%).
- Assets are retained in the Fund Balance to lessen the risk of becoming unfunded and in the Occupational Disease Reserve (ODR) to provide for significant unforeseen costs related to latent occupational injury or disease.

The Accident Fund is considered fully funded when it is within the Funded Ratio target range of 114% to 128%. Surplus assets exceeding the 128% funding level are available for distribution to employers as a special dividend, whereas replenishment levies would be required if assets fall below 114%.

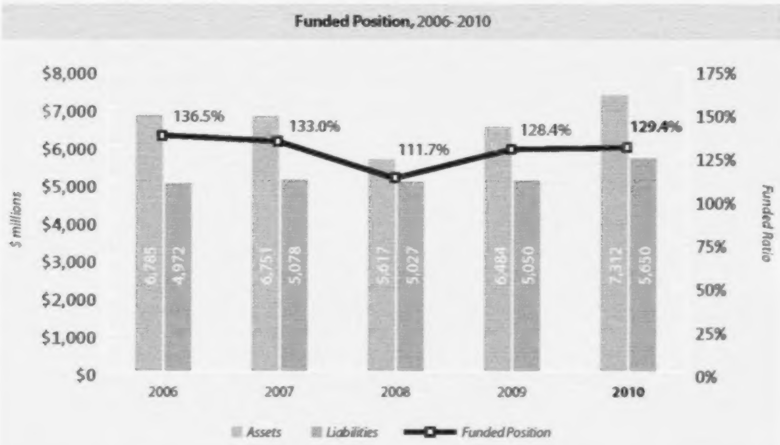
Funded Position

The table presents the major changes in Funded Position and the ending balance as at December 31, 2010:

($ millions)	Opening	2010 Change	Ending
Accumulated operating surplus for the year	$ 810.6	$ 141.4	$ 952.0
Special dividends	-	(230.2)	(230.2)
Occupational Disease Reserve maintenance funding	-	(22.3)	(22.3)
Accumulated operating surplus	810.6	(111.1)	699.5
Net unrealized gains on investments	328.2	317.6	645.8
Fund Balance	1,138.8	206.5	1,345.3
Occupational Disease Reserve	294.4	22.3	316.7
Funded Position	$ 1,433.2	$ 228.8	$ 1,662.0

As at December 31, 2010, the Funded Ratio (total assets to total liabilities) was 129.4%, compared to 128.4% at the end of 2009. Viewed from another perspective, WCB has total assets of $7.3 billion to cover its total estimated liabilities of $5.6 billion. This increase in Funded Ratio is the result of positive investment returns in 2010. As a result of the strong returns, WCB-Alberta will be paying a special dividend in 2011 to return a portion of excess funding to employers.

The chart below presents the Funded Position from 2006 through 2010.



Risk Management

OVERSIGHT

Under WCB's corporate governance structure, the Board of Directors is responsible for overall risk management. The executive team, which has a mandate to identify and manage enterprise-level risk, is assisted by the Risk Management Committee, composed of a group of senior managers with responsibility for risk identification, assessment and mitigation at the operating level.

RISK ASSESSMENT

WCB has three primary processes for managing risk in the corporation. First, risk management is embedded as an inherent function of day-to-day business. Major projects and changes to business processes must go through a documented risk analysis to assess risk and identify mitigation plans and controls to lessen the likelihood or impact of these risks. The second process is to complete a systematic and comprehensive risk assessment of emerging corporate risks as they develop throughout the year. Finally, WCB also completes an annual corporate risk assessment that engages departmental management teams and senior managers to develop a comprehensive organizational risk register. The executive team prioritizes those risks with the highest potential residual impact to WCB and selects a number for comprehensive risk assessment and mitigation.

SIGNIFICANT RISKS

WCB has identified the following risk exposures that could have significant impact on the organization and its operations.

Benefit cost risk

Many of WCB's claim-related benefits are subject to external factors that have potentially significant impacts on the amount and duration of related benefit costs. These risks and uncertainties are driven largely by economic conditions such as health care inflation and utilization, and wage growth; however, other factors may arise through administrative precedents established through the appeals process, legislative changes or from new medical findings for occupational disease, among others. All these factors add significant uncertainty to WCB's cost structure and may impose, over time, significant pressures on the funding model.

Fraud-related risk

Every year, WCB collects approximately one billion dollars in premium revenue and distributes or reserves a similar amount for claim benefits and administrative costs. The magnitude of these costs and the number of individuals and companies involved in these processes—approximately 139,000 employers, 200,000 claimants and thousands of service providers—creates inherent risk for fraud. WCB employs an extensive audit program to monitor the organization's ability to protect against fraud and implements additional controls, as required, to strengthen WCB's management of fraud risk.

Funding risk

Managing the components of WCB's overall Funded Position (Fund Balance and ODR) is a complex process that involves forecasting, liability projection, investment management and operational performance. Although these processes are within management's influence or control, many of the assumptions used in forecasting involve significant uncertainty regarding the future. Asset-liability management continues to be enhanced to provide better systems, tools, processes and information to enhance forecasting, financial-planning and decision-making processes within WCB.

Investment risk

In its investment portfolio, WCB is exposed to financial risk, which includes market and credit risk, among others. Market risk is the risk that the fair value of investments and/or associated cash flows may change because of changing general economic conditions or factors specific to individual securities. Credit risk is the potential of a debt issuer or counterparty in a financial contract to default on its obligation to WCB. Details of financial risks related to investments are discussed in Note 7, Investment Risk Management, in the accompanying financial statements and notes.

Premium risk

WCB has exposure to premium risk, which is the risk that premiums set for the coming fiscal period will not be sufficient to cover the operating costs in that year. These risks and uncertainties are largely driven by provincial economic conditions such as employment growth and wage escalation. To manage premium-pricing risk, WCB has instituted a comprehensive forecasting program that leverages widely accepted economic-forecasting sources such as the Conference Board of Canada.

Technology risk

To support its core business processes, WCB uses a number of information systems for processing transactions and maintaining claimant and employer information. If these systems were to fail or be compromised, significant disruption to business processes and customer service could result. To mitigate technology risk, WCB maintains a business continuity plan, system controls and backup systems to prevent processing failures and provides extensive training to develop internal system expertise.

Implications of Accounting Policies and Estimates

The adoption of accounting policies in accordance with Canadian generally accepted accounting principles (GAAP) requires that management make judgments, assumptions and estimates that could significantly affect the results of operations and WCB's financial condition. The following discusses those significant accounting policies that entail significant use of judgments and estimates that may have a material effect on current and future financial statements.

Premiums

In advance of the fiscal year, and based on Funding Policy and projections in the *2010 Budget and 2010–2012 Financial Plan*, WCB estimates the total premium amount necessary to cover estimated claims costs, transfer levies, administration expenses and funding requirements. Because premium rates are set well in advance of revenue being realized, they reflect WCB's expectations of future macroeconomic and business conditions that will likely change before and during the fiscal period. Consequently, the premiums collected may be more or less than estimated funding requirements, and the difference could be significant in periods of economic volatility or uncertainty.

Investments

Investment assets are financial instruments designated as available-for-sale securities, whose primary purpose is to maintain capital and generate investment income over the long term. Because WCB accounts for investments at fair value, which reflects realizable market value, this accounting policy could lead to significant volatility in the balance sheet during periods of capital market turbulence. Any funding ratios based on asset values would therefore be volatile as well. Details of the investment assets and inherent risk associated with holding such investments can be found in Note 6, Investments, and in Note 7, Investment Risk Management, in the accompanying financial statements and notes.

Derivatives

The fair value of a derivative contract is its change in value with respect to the change in the underlying security or reference index to which the contract is linked. Gains and losses on derivative contracts are recognized in income in the periods in which they arise. Since the fair value of a derivative is exposed to market changes, the underlying derivative positions could be volatile as well.

Asset capitalization and amortization

The acquisition or development costs of long-lived assets are amortized over their useful lives. Selection of applicable costs to capitalize as well as an estimate of the useful life of an asset and its residual value requires application of professional judgment within the context of corporate policy and industry practice. Furthermore, future periods will be affected by the estimate of useful life and choice of amortization pattern, which determine the timing and amount of expense recognized in each of those future periods.

Asset impairment

Accounting standards prescribe a test for impairment, at least annually, whenever there is objective evidence that the current carrying value of an asset may not be recoverable. Although accounting standards provide broad guidance on when and how impairment losses should be recognized and measured, the interpretation and assessment of impairment remains a matter of professional judgment. For investment assets, management judgment comes into play in assessing the extent and severity of the decline, the risk profile and prospects of the issuer, and WCB's ability and intent to hold a particular security until anticipated recovery.

Impairment testing of non-financial assets such as property, plant and equipment and intangible assets also involves judgment in establishing the test parameters and evaluating the available evidence to support a finding of impairment. Considering market or other demand factors, future business objectives affecting expected utilization of the asset, and other relevant and objective evidence, management concludes on the likelihood of recoverability over the remaining useful life.

Valuation of claim benefit liabilities

WCB has significant obligations extending well into the future for compensation benefits to injured workers. WCB applies the actuarial present-value methodology for its claim benefit liabilities. The actuarial process projects benefit cost streams into the future and discounts them to present value using a discount rate linked to the return on investment assets funding those liabilities. Measurement uncertainty is high because assumptions regarding the amount, timing and duration of the benefit commitments and future return on assets are difficult to predict accurately and are influenced by external factors outside management's control. Consequently, the selection of one assumption over another in estimating claim benefit liabilities could have a material impact on the liability valuation.

Governance and Compliance

Legislative authority

Under the authority of the *Workers' Compensation Act*, WCB is a provincial board-governed organization that operates independently while reporting to the Alberta Minister of Employment and Immigration (the Minister).

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (ICOFR) to provide reasonable assurance regarding the reliability of the entity's financial reporting and the preparation of its financial statements in accordance with GAAP. WCB has developed a framework and plan for the overall ICOFR program. The framework is based on best practices under the COSO[iii] and COBIT[iv] frameworks. The ICOFR program is assisted by WCB's Management Audit Services group and is reviewed by the Office of the Auditor General during the annual financial audit. The plan is updated annually to include a review of previously completed control assessments, and the completion of new control assessments, taking into account both risk and materiality.

Accountability Framework reporting

Through consultation with the Minister and stakeholders, the *Accountability Framework* was approved in 2002 to provide Albertans with a set of supplementary measures that compare actual WCB results to established standards and/or industry benchmarks. These measures cover such areas of WCB operations as communications with stakeholders; client satisfaction; consistency, clarity and fairness of claim decisions; timeliness and effectiveness of WCB services; and financial capability and effectiveness of injury prevention programs. The Auditor General reviews the reported measures for reliability, understandability, comparability and completeness. The *2010 Accountability Framework: Supplementary Measures Report* can be viewed at www.wcb.ab.ca.

Business planning

An important aspect of the financial planning and budgeting is its linkage to WCB's strategic plan and the resulting corporate objectives developed each year in support of the strategic plan. These objectives and the related performance indicators set the direction for the organization and identify the significant areas of focus for the coming year. The *2010 Budget and 2010–2012 Financial Plan* establishes the foundation for appropriate resource allocation for achieving the corporate objectives. A copy of the plan can be viewed at www.wcb.ab.ca.

[iii] *Committee of Sponsoring Organizations of the Treadway Commission, which developed a governance framework for internal control.*

[iv] *Control Objectives for Information and Related Technology, a collection of best practices for IT governance, control and assurance.*

Emerging Issues

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011, publicly accountable enterprises in Canada must prepare their financial statements in accordance with International Financial Reporting Standards (IFRS). As a publicly accountable enterprise, WCB falls within the scope of entities required to adopt IFRS. To prepare for this transition, WCB established a convergence program, launched several supporting projects to address the more significant accounting and business processes and engaged an independent external advisor to validate the deliverables. Major changes to accounting policies, processes and systems were completed during 2010 in order to begin compiling comparative IFRS results effective January 1, 2010.

IFRS status as at December 31, 2010

As at December 31, 2010, IFRS implementation plan is substantially complete. All known significant accounting policies have been drafted, while some policy development remains contingent on anticipated changes to certain standards likely to become effective during or after the transition period. Systems and process changes have been tested and fine-tuned, and no outstanding issues remain.

Having completed its evaluation of the significant IFRS elections applicable to WCB's financial results, WCB has identified the exemptions that it will apply in its first IFRS financial statements. These may change should new IFRS standards or amendments become effective for fiscal 2011. The table on the following page presents the key IFRS policy elections as at the reporting date along with their expected impacts.

Applicable Transitional and Post-Transition IFRS Elections

Significant IFRS Areas	Policy Change	Accounting Policy/Elections	Preliminary Election and Related Impact
Property, plant and equipment (PPE)	No	For opening valuation of PPE: · Fair value as deemed cost · Reconstructed historical cost (adjusted to IFRS basis)	Reconstructed historical cost ***Impact:*** minimal; current policy is substantially converged with IFRS
		For post-transition accounting: · Revaluation method (fair value basis) · Cost method	Cost method ***Impact:*** minimal; current policy is substantially converged with IFRS
Investments	Yes	Financial instruments: IAS 39: · Reclassify at fair value through profit and loss (FVTPL) · Maintain available-for-sale designation IFRS 9 (effective Jan. 1, 2013) · Reclassify at fair value through profit and loss (FVTPL)	Early adopt IFRS 9—reclassify investments at FVTPL ***Impact:*** significant; recognize fair value changes in statement of comprehensive income; presentation changes (elimination of AOCI) in statement of financial position
Leases	Yes	None available; IAS 17 prescribes a principles-based approach to classifying a lease as either finance or operating	No election ***Impact:*** minimal; more leases are expected to be classified as finance—amounts are not significant
Employee benefits	Yes	For first-time adoption: · Recognize all cumulative actuarial gains and losses from plan inception to the date of transition · Reconstruct recognized and unrecognized amounts of cumulative gains and losses	Recognize all cumulative actuarial gains and losses at the date of transition ***Impact:*** minimal; amounts are immaterial
		For post-transition accounting: · Recognize immediately through income · Corridor method	Recognize immediately through income ***Impact:*** minimal; amounts are immaterial
Insurance contracts	No	Optional inclusion in the first IFRS financial statements of prescribed comparative disclosures	Elect comparative disclosure exemption ***Impact:*** none; disclosure only
Financial statement presentation	Yes	Free choice of presentation, subject to prescribed requirements of IFRS Format used in the first IFRS financial statements becomes the standing accounting policy for subsequent statement presentation	Content and format of the statement of comprehensive income and statement of cash flow will align with the proposed requirements of the new standard ***Impact:*** none; presentation and disclosure only

Other impacts arising from IFRS adoption

Adoption of IFRS will affect how WCB presents its financial results, as well as how certain accounting estimates are recognized and measured. The most significant impact will be to investments as all fair value gains and losses will be recognized through investment income as they arise (i.e., will no longer be deferred through other comprehensive income). Remaining impacts are not expected to be significant. Financial reporting and financial planning systems have been updated to address IFRS reporting. The adoption of IFRS, with its focus on principles rather than bright-line rules, will therefore introduce new financial reporting risks related to the following:

- Processes where application of management judgment is required to interpret and apply the standards
- Processes where new measurement techniques and relevant input assumptions and methods are prescribed for critical accounting estimates

Revisions to controls design will be implemented to address those risks, including development of extensive supporting documentation, not only of the reported numbers, but also of the information sources and the judgment or rationale behind key assumptions and choices.

In its project work plan, the standard setter for IFRS has a number of key accounting standards, the majority of which are slated for release in the next several years. Many of these are either new standards or major redrafting of existing standards that may have significant implications for WCB results.

Next steps

WCB has commenced reporting under IFRS effective January 1, 2011. Focus in 2011 will be on the preparation of 2010 IFRS comparative financial statements, together with the required disclosures and reconciliations to 2010 GAAP results. 2011 financial statements will reflect accounting policies in accordance with IFRS standards that will be effective at December 31, 2011. WCB will continue to monitor future IFRS changes to ensure impacts are understood and implemented as required in order to ensure high-quality financial reporting under IFRS.

Looking Ahead

Looking forward to 2011, WCB will be challenged to manage its business in light of Alberta's economic recovery. WCB's business priorities are to build on operational and financial strategies that have contributed to its organizational success. Management will closely monitor economic and operating trends to develop proactive and measured responses to emerging business issues.

Economic outlook

As is the rest of Canada, Alberta is moving toward economic recovery. In 2010, Alberta's economic growth was stronger than anticipated, reaching an estimated Gross Domestic Product (GDP) growth of 3.5%.[v] Economists are now viewing 2011 with renewed optimism based on the anticipated strong growth in the energy sector. Since falling to US$42 a barrel in December of 2008, WTI[vi] oil prices continued to rise throughout 2010 and have fluctuated around US$100 a barrel in early 2011.[vii] Higher oil prices have led to greater intended business investments[viii] and growing oil exports, which will translate to more employment opportunities in the province. Both manufacturing and transportation will benefit from increased oil production; however, overall growth in the energy industry will be tapered by weak natural gas prices and production. Despite the anticipated growth in Alberta, it will not necessarily translate to an increase in demand for new housing, given a continued inventory of pre-owned homes still available. Economists are predicting employment growth of up to 2.2% in the province, which translates to about 44,000 jobs in 2011.[ix] Due to these factors, WCB is forecasting continued growth in insurable earnings for 2011.

After posting a 1.3% increase in 2009, average weekly earnings rose by 4.6% in 2010. The increase in average weekly earnings is due to the rise in the number of hours worked rather than actual increases in hourly wages. This is supported in a further report conducted by the Government of Alberta, which reported that the average negotiated wage increase from January through October of 2010 was 1.6% in Alberta, the lowest since the mid-1990s.[x] Alberta workers received lower growth in wage settlements than the Canadian average of 2.0% in the first three quarters of 2010. Moving ahead, it is anticipated that wage growth in the public sector will remain relatively flat in 2011 as both the federal and provincial governments exercise fiscal constraint. Wage growth is expected in other sectors, especially in oil and gas. WCB is forecasting wage growth at 2.0% for 2011.

In 2011, the Conference Board of Canada foresees a steady and positive progression for the U.S. and world economies.[xi] Despite improvements in consumer spending, businesses in the U.S. appear to be reluctant to hire. Without stronger job gains, growth in the U.S. will remain sluggish and slow down Canada's, as well as Alberta's, economic growth.

Capital market outlook

The capital market outlook continues to be very uncertain heading into 2011. An economic recovery appears to be unfolding in North America while strong growth and inflation in emerging markets is forcing policy actions to slow down those economies. Conflict in the Middle East and the associated impact on energy prices will affect the economic recovery, and the impact of the expected end to the U.S. Federal Reserve's bond purchase program, in June, is difficult to accurately forecast.

Equity markets were very strong in 2010, and at current levels valuations are fully pricing in continued strong growth in corporate earnings. This suggests returns may be much more modest in 2011. Bond yields are near historic low levels, which will translate into very modest returns from bond investments over the next three to five years.

In the longer term, the key issue for markets and for investors like WCB, which have inflation-sensitive liabilities to pay, is the probability of periods of high inflation. The stimulus amount, both monetary and fiscal, that has been and continues to be injected into the financial system and the global economy, may lead to a period of higher-than-expected inflation. This issue is probably still a few years away, as there is currently too much slack in labour markets (high unemployment and underemployment) and low levels of capacity utilization for inflation to be a near-term concern.

Forecasting short-term market performance is difficult at best. Studies show that investors typically cause themselves more harm than good by trying to time short-term capital market movements. WCB is a long-term investor with a strong financial position. This allows for patience and the ability to stay committed to proven investment principles and beliefs.

The total portfolio return for 2011 has been set at 5.6% for planning purposes; however, continued market volatility suggests the actual returns for 2011 may be significantly different from the planning assumptions.

[v] *Government of Alberta (2011). Budget 2011. Economic Outlook.*

[vi] *West Texas Intermediate Crude*

[vii] *Government of Alberta (February 2011). Monthly Economic Review.*

[viii] *Statistics Canada Survey of Businesses (February 2011).*

[ix] *Conference Board of Canada (Winter 2011). Provincial Outlook Executive Summary.*

[x] *Government of Alberta (December 14, 2010). Economic Spotlight – Alberta Wage Update.*

[xi] *Conference Board of Canada (Winter 2011). Canadian Outlook Executive Summary.*

Business outlook

Customer operations

On the customer operations front, our strategic plan continues to keep us anchored on the fundamentals of our business: return to work.

In 2011, we continue our focus on return to work through improved shoulder injury rehabilitation methods, suitable modified work and return to work with alternate employers wherever pre-injury employers no longer have jobs available. The right modified work opportunities have helped injured workers take advantage of on-the-job rehabilitation while giving employers the chance to support and keep their valued employees.

For 2011, modified-work-only claims are expected to increase as the economy recovers. Average claim duration, the time workers receive temporary disability benefits, is projected to remain near 36 average days for 2011.

Together with our stakeholders, we continue to be successful in injury management, having reached the lowest lost-time-claim rate per 100 covered workers in our history; however, this positive trend is likely levelling off.

Financial management

Financial management is based on an investment policy derived from asset-liability studies that consider the year-by-year liabilities of the fund together with the probabilities of associated stock, bond and real estate returns. This results in an allocation to stocks, bonds and other assets that changes moderately from year to year and generally performs well notwithstanding some volatility from year to year.

The Investment Policy's long-term direction is toward more inflation-sensitive assets, which will lower volatility further, yet provide a level of return over the long run, which will contribute to the continued financial strength of the fund.

2011 premium rate

In 2011, the average premium rate will decrease to $1.22 per $100.00 of insurable earnings. In addition, insurable earnings are forecasted to grow at a faster pace in 2011 as Alberta's economy continues to improve.

With all Workers' Compensation Boards in Canada having announced their premium rates for 2011, WCB-Alberta continues to have the lowest average rate. Alberta's premium rates have been among the lowest in Canada throughout the past decade.

Outlook for financial condition

At the end of 2010, WCB's funded ratio was 129.4% (assets over liabilities). Given economic uncertainty and the volatility of investment returns, it is difficult to determine the likelihood that our funded position at year-end 2011 will be above the threshold to produce a dividend that would be paid in 2012.

Facing the future

2010 presented return-to-work challenges for clients as work opportunities were tougher to find and secure. In response, clients and WCB staff were more proactive in their modified work conversations, and this focus should continue into 2011. Looking forward, we also expect to:

- Work within a more robust economy, helping injured workers find suitable and safe return-to-work solutions;
- Maintain our focus on effective financial management strategies to manage a balanced fund that protects the security of worker benefits; and
- Work with Alberta's employers on developing effective disability management programs and on fostering accountability through pricing programs.

Overall, 2011 looks positive as we work with our partners to leverage an improving economy for the benefit of the workers' compensation system.

WCB-Alberta

2010 Financial Statements

For the year Ended December 31, 2010

Financial Statements

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Responsibility for Financial Reporting

The financial statements of the Workers' Compensation Board – Alberta were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting principles consistent with generally accepted accounting principles in Canada.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains the necessary internal controls designed to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded. The effectiveness of controls over financial reporting was assessed and found to provide reasonable assurance that internal controls at December 31, 2010 operated effectively with no material weaknesses in the design or operation of the controls.

The Board of Directors is responsible for overseeing management in the performance of financial reporting responsibilities and has approved the financial statements included in the annual report.

The Board of Directors is assisted in its responsibilities by its Audit Committee. This committee reviews and recommends approval of the financial statements and meets periodically with management, internal and external auditors, and actuaries concerning internal controls and all other matters relating to financial reporting.

Eckler Ltd. has been appointed as the independent consulting actuary to the WCB. Their role is to complete an independent actuarial valuation of the claim benefit liabilities included in the financial statements of the WCB and to report thereon in accordance with generally accepted actuarial practice.

The Office of the Auditor General, the independent auditor of the WCB, has performed an independent audit of the financial statements of the WCB in accordance with Canadian generally accepted auditing standards. The Independent Auditor's Report outlines the scope of this independent audit and the opinion expressed.

David B. Carpenter, FCA
Chair, Board of Directors
Workers' Compensation Board – Alberta

Guy R. Kerr
President & Chief Executive Officer
Workers' Compensation Board – Alberta

Ron J. Helmhold, CA
Chief Financial Officer
Workers' Compensation Board – Alberta

Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the Board of Directors of the Workers' Compensation Board – Alberta

Report on the Financial Statements

I have audited the accompanying financial statements of the Workers' Compensation Board – Alberta, which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations, comprehensive income, changes in funded position, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Workers' Compensation Board – Alberta as at December 31, 2010 and 2009, and the results of its operations, changes in funded position, and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General
April 26, 2011
Edmonton, Alberta

Eckler
CONSULTANTS + ACTUARIES

Actuarial Statement of Opinion

on the Valuation of the Benefits Liabilities of the Workers' Compensation Board – Alberta as at December 31, 2010

I have completed the actuarial valuation of the benefits liabilities of the Workers' Compensation Board – Alberta (WCB) for the financial statements of the WCB as at December 31, 2010. In my opinion, the actuarial liabilities of $5,278.9 million make reasonable provision for future payments for short term disability, vocational rehabilitation, long term disability, survivor and health care benefits, as well as claims administration costs, on account of claims that occurred on or before December 31, 2010; it does not include a provision for future claims arising from latent occupational disease or for benefits and payments that are on a self-insured basis.

The valuation was based on the provisions of the *Workers' Compensation Act* of Alberta and on the WCB's policies and administrative practices in effect at the time of the valuation. The impact of the recent change in regulation and administrative practices for Firefighters' Primary Site Cancer has been considered.

The data on which the valuation is based were provided by the WCB; I applied such checks of reasonableness of the data as I considered appropriate, and have concluded that the data are sufficiently reliable to permit a realistic valuation of the liabilities and that the data are consistent with WCB's financial statements. The liabilities included herein have been computed by the WCB in accordance with methods and assumptions approved by me; I have made such tests of the calculations that I considered necessary.

The economic assumptions adopted for purposes of computing the liabilities are consistent with the WCB's funding and investment policies. For this valuation, an annual real rate of return of 2.00% for 2011 to 2014 and 3% thereafter was used to discount expected payments subject to inflation, a change from the 3.00% flat rate in the previous valuation. Other economic assumptions underlying the calculations are annual changes in the Consumer Price Index (CPI) of 2.50%, increase for benefits subject to cost of living adjustments at CPI minus 0.50%, as well as health care costs and vocational rehabilitation benefits assumed to grow at annual rates of 6.00% and 3.50% respectively; these rates are the same as those used in the previous valuation.

The methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. Projections of future claim payments and awards have been made using factors developed from the WCB's claims experience, mortality and other assumptions. The main change made to the actuarial basis was the real rate of return assumption. All the changes in methodologies and assumptions have resulted in an overall increase of $164.2 million in liabilities.

Details of the data, actuarial assumptions, valuation methods and analysis of results are set out in my actuarial report as at December 31, 2010, of which this statement of opinion forms part.

In my opinion, the data on which the valuation is based are sufficient and reliable and the assumptions and methods employed are appropriate for the purpose of the valuation. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.

Richard Larouche

Richard Larouche, FSA, FCIA
Actuary
Eckler Ltd.
March 11, 2011

The Workers' Compensation Board – Alberta

Balance Sheets

As at December 31

($ thousands)	Notes	**2010**	2009
ASSETS			
Cash and cash equivalents	4	$ 362,105	$ 100,722
Receivables	5	34,589	6,349
Investments	6, 7	6,851,029	6,315,424
Property, plant and equipment	8	40,867	34,591
Intangible assets	9	23,225	26,561
		$ 7,311,815	$ 6,483,647
LIABILITIES			
Payables and accruals	10	$ 140,758	$ 142,954
Dividends payable	11	230,128	500
Claim benefit liabilities	12	5,278,900	4,907,000
		5,649,786	5,050,454
FUNDED POSITION	3		
Fund Balance		1,345,329	1,138,793
Occupational Disease Reserve		316,700	294,400
		1,662,029	1,433,193
		$ 7,311,815	$ 6,483,647
RELATED-PARTY TRANSACTIONS	21		
COMMITMENTS	22		
CONTINGENCIES AND INDEMNIFICATION	23		

Approved by the Board of Directors:

David B. Carpenter, FCA
Chair, Board of Directors
Workers' Compensation Board – Alberta

Guy R. Kerr
President & Chief Executive Officer
Workers' Compensation Board – Alberta

The accompanying notes are an integral part of these financial statements.

The Workers' Compensation Board – Alberta

Statements of Operations

Year ended December 31

($ thousands)	Notes	2010 Budget	2010 Actual	2009 Actual
REVENUE				
Premium	14	$ 984,657	$ 1,031,541	$ 908,456
Investment	15	241,690	326,726	219,996
Other	16	200	870	1,273
		1,226,547	1,359,137	1,129,725
EXPENSES				
Claim costs	12	977,743	1,093,879	704,728
Administration	17	82,223	79,387	78,607
Injury reduction	20	44,660	44,460	39,593
		1,104,626	1,217,726	822,928
OPERATING SURPLUS		$ 121,921	$ 141,411	$ 306,797

The accompanying notes are an integral part of these financial statements.

The Workers' Compensation Board – Alberta

Statements of Comprehensive Income

Year ended December 31

($ thousands)	Notes	2010	2009
OPERATING SURPLUS		$ 141,411	$ 306,797
OTHER COMPREHENSIVE INCOME			
Net unrealized gains on available-for-sale investments arising during the year		389,353	392,662
Net investment (gains) losses realized during the year and reported in the statements of operations	15	(78,824)	112,445
Loss realized during the year from write-down of impaired investments and reported in the statements of operations	15	7,087	31,042
		317,616	536,149
TOTAL COMPREHENSIVE INCOME		$ 459,027	$ 842,946

The accompanying notes are an integral part of these financial statements.

The Workers' Compensation Board – Alberta

Statements of Changes in Funded Position

Year ended December 31

($ thousands)	Notes	2010	2009
FUND BALANCE			
Accumulated operating surplus			
Balance, beginning of year		$ 810,597	$ 503,983
Operating surplus		141,411	306,797
Dividends	11	(230,191)	(83)
Transfer to occupational disease reserve		(22,300)	(100)
		699,517	810,597
Accumulated other comprehensive income (loss)			
Balance, beginning of year		328,196	(207,953)
Other comprehensive income		317,616	536,149
	6	645,812	328,196
Fund Balance, end of year		1,345,329	1,138,793
OCCUPATIONAL DISEASE RESERVE			
Balance, beginning of year		294,400	294,300
Transfer from accumulated operating surplus		22,300	100
		316,700	294,400
		$ 1,662,029	$ 1,433,193

The accompanying notes are an integral part of these financial statements.

The Workers' Compensation Board – Alberta

Statements of Cash Flows

Year ended December 31

($ thousands)	2010 Budget	2010 Actual	2009 Actual
OPERATING ACTIVITIES			
Cash inflows			
Employer premiums	$ 986,906	$ 989,237	$ 966,564
Dividend, interest and derivative income	159,191	216,507	331,223
Realized net investment gains (losses)	82,499	78,824	(112,445)
Other	442	468	464
Cash outflows			
Benefits to claimants and/or third parties on their behalf	(623,933)	(600,876)	(585,148)
Employee and supplier payments for administrative and other goods and services	(203,518)	(176,243)	(180,647)
Injury reduction program funding	(44,660)	(44,460)	(39,593)
Net cash from operating activities	356,927	463,457	380,418
INVESTING ACTIVITIES			
Cash outflows			
Net purchase of investments	(300,454)	(186,594)	(354,319)
Net purchase of property, plant and equipment	(9,090)	(10,139)	(7,073)
Net purchase of intangible assets	(6,383)	(4,778)	(9,712)
Net cash used for investing activities	(315,927)	(201,511)	(371,104)
FUNDING POLICY ACTIVITIES			
Cash outflows			
Special dividends to employers	-	(563)	(3,956)
Net cash used for Funding Policy activities	-	(563)	(3,956)
NET INCREASE IN CASH AND CASH EQUIVALENTS	41,000	261,383	5,358
Cash and cash equivalents, beginning of year	121,000	100,722	95,364
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 162,000	$ 362,105	$ 100,722

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2010 with comparatives for the year ended December 31, 2009

(thousands of dollars unless stated otherwise)

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements of the Workers' Compensation Board – Alberta (WCB) have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

ACCOUNTING ESTIMATES AND MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with GAAP requires the use of estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods presented.

Some accounting measurements require management's best estimates, based on assumptions as at the financial statement date, that reflect the most probable set of economic conditions and planned courses of action. Claim benefit liabilities, dividends payable, the reserve for occupational disease, write-downs of investments, the Partnerships in Injury Reduction (PIR) accrual, and accrued premium revenue are the most significant items that are based on accounting estimates. Actual results could differ from the estimates determined by management in these financial statements, and these differences, which may be material, could require adjustment in subsequent reporting periods.

COMPREHENSIVE INCOME

Comprehensive income includes current operating surplus and other comprehensive income (OCI). Other comprehensive income is comprised of unrealized fair-value gains and losses from investments, less previously deferred unrealized gains and losses that have been realized during the period through sale or impairment loss write-down and recognized in current income. Accumulated other comprehensive income (AOCI) includes unrealized fair-value gains and losses arising from holding available-for-sale investments. When the underlying securities are subsequently sold or written down, the resulting realized gain or loss is released from AOCI into investment income in the statements of operations.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the financial statement date. Non-monetary assets and liabilities are translated at the historical exchange rate. Foreign-currency transactions are translated into Canadian dollars using the exchange rate in effect when those transactions occur. Foreign currency gains and losses are recognized in income in the period in which they arise.

CASH AND CASH EQUIVALENTS

Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash and short-term investments held by custodians are not available for general use, and accordingly are included in investments.

INVESTMENTS

Portfolio investments, which comprise securities held for long-term capital appreciation and generation of income, are reported at fair value. Fixed income investments, marketable equity securities, and real estate and infrastructure investments are classified as available-for-sale investments. Derivatives used to manage asset and risk exposures are classified as held-for-trading instruments. Investments are initially recognized at acquisition cost (including premiums or discounts at date of purchase) and subsequently measured at fair value at each reporting date. WCB utilizes trade-date accounting (date when transactions are entered into rather than when they are settled) for all purchases and sales of investments.

VALUATION OF FINANCIAL ASSETS

The basis of measurement for financial assets is fair value as at the reporting date as follows:

- Publicly traded securities are based on their closing market prices or the average of the latest bid/ask prices quoted by independent securities valuation companies.
- Non-publicly traded private investment in infrastructure and real estate pooled funds are valued at the net asset values of the funds, which reflect the fair values of fund assets less fund liabilities.
- The fair value of real estate funds are based on independent annual appraisals, net of any liabilities against the fund assets.
- The fair value of the commercial mortgages fund is based on the market interest rate spread over Bank of Canada bonds with a similar term to maturity.

VALUATION OF DERIVATIVES

Derivatives are financial contracts whose price is dependent on the price of one or more underlying securities, reference rates or indices. The fair value of WCB's derivative contracts, primarily forward foreign-exchange contracts and futures contracts, are valued based on quoted market prices.

INVESTMENT INCOME

Recognition and measurement

WCB recognizes interest revenue as earned, dividends when declared, and investment gains and losses when realized. Interest revenue is recognized over the term of a debt security using the effective interest rate method, and includes amortization of any premium or discount recognized at date of purchase. For real-return bonds, interest revenue also includes amortization, using the effective interest rate method, of adjustments to principal related to changes in inflation. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income.

Derivatives are classified as held-for-trading instruments and, as such, changes in fair value resulting from marking derivative contracts to market are recognized in investment income. WCB's investment portfolio contains certain derivatives that meet hedge accounting requirements. WCB does not apply hedge accounting to the hedging relationships in its segregated investments, but uses hedge accounting indirectly in some pooled fund investments.

Transaction costs are included in the acquisition cost of individual securities. Direct investment expenses such as external custodial and management fees, as well as internal investment management expenses, are netted against investment income.

Impairment of financial instruments
When the fair value of an investment falls below its cost, and the decline is determined to be other-than-temporary, a loss equivalent to the difference between cost and current fair value is recorded against investment income in the statements of operations. The assessment of other-than-temporary impairment considers the extent of the unrealized loss, the length of time that the security has been in a loss position, the financial condition of the issuer and WCB's intent to hold the security to any anticipated recovery.

PREMIUM REVENUE

Premiums are billed when employers report their insurable earnings for the current premium year. For employers who have not reported, premiums are estimated based on historical experience, and any difference between actual and estimated premiums is adjusted the following year. Premium revenue is net of the Partnerships in Injury Reduction (PIR) rebate.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives. Depreciation is calculated using the following annual rates and methods that best reflect the realization of benefits:

Buildings		*· 2.5% straight-line*
Leasehold improvements		*· term of the leasing contract plus one renewal period*
Equipment	*· computer*	*· 35% declining balance*
	· furniture and other	*· 15% declining balance*
	· vehicles	*· 20% straight-line*

WCB evaluates its property, plant and equipment for impairment due to obsolescence, redundancy, deterioration, loss or reduction in future service potential. WCB writes down the carrying value to fair value and records the write-down amount as depreciation expense.

INTANGIBLE ASSETS

Computer software
Software development expenditure is capitalized only if the directly related costs can be measured reliably, the product or process is technically feasible, future economic benefits are probable, and WCB has the intention and sufficient resources to complete development and to use the asset. Computer software development costs are recognized as assets and amortized using the straight-line method at an annual rate of 20% commencing from the date that the software is available for use.

WCB evaluates its computer software for impairment due to obsolescence, redundancy, loss or reduction in future service potential. WCB writes down the carrying value to fair value and records the write-down amount as amortization expense.

CLAIM BENEFIT LIABILITIES

Claim benefit liabilities represent the actuarial present value of all future benefit payments and claim administration costs for claims in respect of current and prior years' injuries. Claim benefit liabilities have been estimated in accordance with accepted actuarial practice established by the Canadian Institute of Actuaries.

EMPLOYEE FUTURE BENEFITS

Permanent employees of WCB participate in defined benefit pension plans sponsored by the Province of Alberta. As these multi-employer plans meet the accounting requirements for treatment as defined contribution plans, the current year employer contributions are accounted for as current pension expense.

For senior management, WCB also sponsors a supplemental retirement income plan to provide post-employment benefits in excess of statutory limits. The supplemental plan is a defined benefit plan whose costs are actuarially determined each year using the projected benefit method prorated on service. Actuarial gains and losses arising from the annual valuation are recognized in benefit plan expense as they arise.

WCB offers a contributory benefit plan that allows eligible employees who retire early to continue participating in staff benefit programs between the date of early retirement and the end of the month in which the employee turns 65. These bridge benefits include group supplementary health and dental care.

In addition to post-retirement benefits, WCB offers an income continuance plan for long-term disability to all permanent employees. The costs of providing such benefits are actuarially determined by WCB's benefit consultants. Valuation of the liability may result in a net actuarial gain or loss. The gain or loss that is greater than 10% of the benefit obligation is amortized to benefit plan expense over the estimated average expected remaining service period of employees.

2. FINANCIAL REPORTING CHANGES

FUTURE ACCOUNTING POLICY CHANGES

Adoption of International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board confirmed that the changeover date for adoption of International Financial Reporting Standards (IFRS) by publicly accountable enterprises will be January 1, 2011. The 2010 Management Discussion and Analysis provides details on WCB's plans for adoption of IFRS, together with an assessment of readiness for 2011.

3. FUNDING BASIS

LEGISLATIVE AUTHORITY

WCB operates under the authority of the *Workers' Compensation Act* (the Act), Revised Statutes of Alberta 2000, Chapter W-15, as amended.

ACCIDENT FUND

The Act stipulates the creation of an Accident Fund (the Fund) with sufficient funds to pay present and future compensation. The Fund is fully funded, when total fund assets equal or exceed total liabilities. This Funded Position (or net assets) represents the current funding status. The Funded Position is maintained in two reserves within the Accident Fund: the Fund Balance and the Occupational Disease Reserve (ODR).

The Fund Balance consists of accumulated net operating surpluses/deficits and accumulated other comprehensive income, which holds unrealized gains and losses on investments.

The ODR was established to provide for costs arising from latent occupational injury or disease where a causal link to the workplace has not been established, but may be established in the future. No provision against income has been made for future claims arising from such injury or disease because the determination of such claims cannot be reasonably estimated. The ODR is maintained at a percentage of claim benefit liabilities through a transfer from or to the Fund Balance.

FUND MANAGEMENT

Since the Act does not provide for an ownership-based capital structure, WCB views its available capital resources as synonymous with its Funded Position. The primary objective in managing the Funded Position is to mitigate the risk of being unfunded, while a secondary objective is to minimize premium rate volatility caused by investment risk. WCB manages the financial status of the Accident Fund by monitoring the Funded Position and making funding decisions in accordance with the Funding Policy.

The Funding Policy sets a target zone of 114% to 128% for the Funded Ratio (total assets divided by total liabilities) to guide funding decisions. When the Funded Ratio falls below the target zone, special funding requirements are included in premium rates. When the Funded Ratio is above the target zone, special dividends may be paid.

($ thousands)	**2010**	2009
Accident Fund		
Total assets	$ 7,311,815	$ 6,483,647
Less:		
Total liabilities	5,649,786	5,050,454
Funded Position	$ 1,662,029	$ 1,433,193
Funded Ratio	129.4%	128.4%

4. CASH AND CASH EQUIVALENTS

($ thousands)		**2010**		2009
Cash in transit and in banks	$	20,017	$	15,786
Cash equivalents		342,088		84,936
	$	362,105	$	100,722

Cash equivalents are invested in a short-term pooled investment fund that generated an annual return of 0.9% (2009 – 1.2%).

5. RECEIVABLES

($ thousands)		**2010**		2009
Premium				
Assessed	$	33,352	$	-
Accrued		(5,528)		-
		27,824		-
Other		6,765		6,349
	$	34,589	$	6,349

Accrued premiums receivable represent estimated premiums related to employers that had not reported their insurable earnings by year-end. See Note 10 for the reclassification of the 2009 premium accrual to Payables and Accruals and Note 14 for details concerning the premium accrual.

6. INVESTMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below presents the cost and carrying amount at fair value for WCB's investments as at December 31, 2010, with the change in fair value recognized through other comprehensive income:

($ thousands)	2010					2009		
	Adjusted Cost[1]	Unrealized Gains	Unrealized Losses	AOCI	Fair Value	Adjusted Cost[1]	AOCI	Fair Value
Available-for-sale investments								
Fixed income								
Nominal bonds:								
Canada	$1,965,683	$ 82,539	$ -	$ 82,539	$2,048,222	$2,090,140	$ 35,628	$2,125,768
Other markets	226,767	-	(7,643)	(7,643)	219,124	151,360	(1,663)	149,697
Mortgages[2]	228,736	5,067	-	5,067	233,803	188,389	(826)	187,563
	2,421,186	87,606	(7,643)	79,963	2,501,149	2,429,889	33,139	2,463,028
Equities								
Domestic	663,671	106,907	(14)	106,893	770,564	624,331	35,113	659,444
Foreign:								
Global[3]	1,571,764	137,654	(25,221)	112,433	1,684,197	1,949,422	4,995	1,954,417
Emerging markets	281,510	110,940	-	110,940	392,450	178,383	80,906	259,289
	2,516,945	355,501	(25,235)	330,266	2,847,211	2,752,136	121,014	2,873,150
Inflation-sensitive								
Real estate[4]	654,236	99,066	(1,347)	97,719	751,955	385,061	59,856	444,917
Infrastructure[5]	221,018	3,399	(526)	2,873	223,891	28,841	(1,197)	27,644
Real-return bonds	368,159	134,991	-	134,991	503,150	371,441	115,384	486,825
	1,243,413	237,456	(1,873)	235,583	1,478,996	785,343	174,043	959,386
	6,181,544	680,563	(34,751)	645,812	6,827,356	5,967,368	328,196	6,295,564
Derivatives[6]								
Fixed income	-	-	-	-	6,955	-	-	4,213
Equities	-	-	-	-	16,654	-	-	15,647
Infrastructure	-	-	-	-	64	-	-	-
	-	-	-	-	23,673	-	-	19,860
	$6,181,544	$ 680,563	$ (34,751)	$ 645,812	$6,851,029	$5,967,368	$ 328,196	$6,315,424

[1] *Adjusted cost includes the following:*
a) the accumulated amortization of discount or premium on fixed income securities; and
b) the written-down value for securities assessed to have an other-than-temporary decline in value.
[2] *Mortgages include commercial mortgages and multi-unit mortgages, but do not include single-dwelling residential mortgages.*
[3] *Global comprises U.S. and Europe, Australasia and Far East mandates.*
[4] *Real estate comprises pooled funds invested in commercial properties and segregated assets invested in real estate income trusts.*
[5] *Infrastructure comprises pooled funds invested in infrastructure assets and segregated assets invested in publicly traded infrastructure companies.*
[6] *Changes in the fair value of segregated fund derivatives is recognized in investment income rather than in AOCI. See Note 7 for more details concerning derivatives.*

FAIR VALUE HIERARCHY

The fair value of WCB's investments recorded on the Balance Sheets was determined using one of the following valuation techniques:

Level 1 The fair value is based on quoted prices in active markets for identical assets or liabilities. This level includes equity securities and derivative contracts that are traded in an active exchange market.

Level 2 The fair value is based on inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs based on observable market data. Includes pooled funds invested in traded securities, as well as derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from observable market data.

Level 3 The fair value is based on unobservable inputs that are significant to the fair value of the assets or liabilities and have little or no market activity. This level includes financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes pooled funds invested in debt securities, private equity, real estate and infrastructure.

The table below summarizes the basis of fair value measurements for financial assets held in WCB's investment portfolio as at December 31, 2010:

($ thousands)	**2010 Valuation Technique**				2009 Valuation Technique			
	Level 1	**Level 2**	**Level 3**	**Fair Value**	Level 1	Level 2	Level 3	Fair Value
Available-for-sale investments								
Fixed income								
Nominal bonds	$ -	$2,218,623	$ 26,875	$2,245,498	$ -	$2,146,336	$ 112,892	$2,259,228
Mortgages	-	-	233,987	233,987	-	-	187,686	187,686
	-	2,218,623	260,862	2,479,485	-	2,146,336	300,578	2,446,914
Equities								
Domestic	483,588	284,315	-	767,903	422,564	235,000	-	657,564
Foreign	1,020,149	1,031,089	-	2,051,238	1,249,471	936,406	-	2,185,877
	1,503,737	1,315,404	-	2,819,141	1,672,035	1,171,406	-	2,843,441
Inflation-sensitive								
Real estate	162,536	6,996	581,991	751,523	-	-	433,617	433,617
Infrastructure	146,915	-	71,139	218,054	-	-	27,608	27,608
Real-return bonds	-	502,050	-	502,050	-	485,626	-	485,626
	309,451	509,046	653,130	1,471,627	-	485,626	461,225	946,851
	1,813,188	4,043,073	913,992	6,770,253	1,672,035	3,803,368	761,803	6,237,206
Derivatives	-	23,673	-	23,673	-	19,860	-	19,860
Investments[1]	$ 1,813,188	$4,066,746	$ 913,992	$6,793,926	$ 1,672,035	$3,823,228	$ 761,803	$6,257,066

[1] *Net cash, receivables and payables of $57,103 (2009 – $58,358) are carried at amortized cost and therefore not subject to fair value classification. This net amount is added to the fair value total above to arrive at the total fair value of investments reported on the Balance Sheets.*

RECONCILIATION OF LEVEL 3 FAIR VALUE MEASUREMENTS

($ thousands)	2010			2009		
	Fixed Income	**Real Estate/ Infrastructure**	**Total**	Fixed Income	Real Estate/ Infrastructure	Total
Balance, beginning of year	$ 300,578	$ 461,225	$ 761,803	$ 295,257	$ 467,917	$ 763,174
Realized income recognized in operating surplus	(13,187)	(31,324)	(44,511)	(10,180)	(25,625)	(35,805)
Net change in unrealized gains/losses	19,717	57,693	77,410	14,014	(37,547)	(23,533)
Purchases of Level 3 investments	46,736	217,313	264,049	42,893	58,424	101,317
Sale or settlement of Level 3 investments	(522)	(51,777)	(52,299)	(41,406)	(1,944)	(43,350)
Reclassification[1] to Level 2	(92,460)	-	(92,460)	-	-	-
Balance, end of year	$ 260,862	$ 653,130	$ 913,992	$ 300,578	$ 461,225	$ 761,803

[1] *The reclassification relates to a change in methodology for classifying pooled funds.*

7. INVESTMENT RISK MANAGEMENT

INVESTMENT GOVERNANCE

The Board of Directors is ultimately responsible for overall governance and strategic direction of the investment portfolio through its review and approval of the Investment Policy and ongoing monitoring of investment performance and compliance.

WCB management is responsible for monitoring investment performance, recommending changes to the Investment Policy and selecting fund managers. WCB retains independent consultants to benchmark the performance of its fund managers, and to advise on the appropriateness and effectiveness of its Investment Policy and practices.

KEY FINANCIAL RISKS

The primary financial risk for WCB is the risk that, in the long term, returns from its investments will not be sufficient to discharge all obligations arising from its claim liabilities. Risk management for investments needs to be closely aligned with the risk management of liabilities to best manage this funding risk.

WCB's primary risk mitigation strategy is the implementation of its Investment Policy. The Investment Policy target asset mix, and associated risk and return characteristics, have been established to provide guidelines for a broad investment strategy, as well as specific approaches to portfolio management. The Investment Policy also calls for maintaining a well-diversified portfolio, both across and within asset classes, and engaging fund managers who represent a broad range of investment philosophies and styles, all within a rigorous compliance framework.

WCB has identified key investment risks that directly affect the sufficiency of its investments to fund current and future claim obligations:

Market risks · These risks include movements in equity market prices, interest rates, credit spreads and foreign currency exchange rates.

Other investment risks · These risks relate to the specific composition and management of WCB's portfolio and include liquidity risk, securities lending risk, counterparty default risk and derivatives risk.

The following sections describe these risks and WCB's exposure and mitigation strategies.

Equity market risk

WCB is exposed to equity market risk, which is the risk that the fair value of its investments in publicly traded shares will fluctuate because of price changes. Such price changes are caused by macroeconomic factors and other capital market dynamics, which may affect the market value of individual securities.

WCB's mitigation strategy for equity market risk is disciplined oversight of investment activities within a formal investment control framework that has been reviewed and validated by independent experts to ensure continuous compliance with approved policies and practices. The target asset mix, as outlined in the Investment Policy, is the primary method for controlling the exposure to equity market risk.

The table below presents the effect on WCB's segregated and pooled fund equity mandates of a significant adverse change[1] in the key risk variable—the portfolio weighted average (asset class) benchmark:

($ thousands)	**2010**		2009	
	1 std dev	**2 std devs**	1 std dev	2 std devs
% change in Canadian market benchmark	(16.0%)	(32.1%)	(16.9%)	(33.7%)
Canadian mandate	$ (106,457)	$ (187,069)	$ (95,166)	$ (166,328)
% change in Global market benchmark	(13.4%)	(26.7%)	(12.9%)	(25.8%)
Global mandate	$ (200,585)	$ (358,851)	$ (225,054)	$ (403,961)
% change in Emerging market benchmark	(22.4%)	(44.8%)	(21.5%)	(42.9%)
Emerging markets mandate	$ (71,847)	$ (121,458)	$ (45,814)	$ (77,869)

[1] *A change is considered significant when it exceeds the standard deviation (std dev), which measures the variance in a normal probability distribution. One std dev covers 68% of all probable outcomes; two std devs, 95%. The benchmark deviations are based on 2010 performance data.*

Interest rate risk

Interest rate risk is the risk that the value of a financial security will fluctuate due to changes in market interest rates.

The table below presents the effects of a nominal interest rate change of 50 and 100 bps[ii] on WCB's segregated and pooled fund bond and mortgage portfolios:

($ thousands)	2010		2009	
Change in nominal interest rate	+50 bp	+100 bp	+50 bp	+100 bp
Nominal bonds	$ (67,443)	$ (134,886)	$ (66,266)	$ (132,533)
Change in nominal interest rate	+50 bp	+100 bp	+50 bp	+100 bp
Real return bonds	$ (40,780)	$ (81,561)	$ (36,903)	$ (73,806)
Change in nominal interest rate	+50 bp	+100 bp	+50 bp	+100 bp
Mortgages	$ (4,095)	$ (8,190)	$ (3,303)	$ (6,607)

Fixed income pricing risk

Fixed income pricing risk related to financial securities arises from changes in general financial market or economic conditions that may change the pricing of the entire non-government bond market, specific sectors or individual issuers. This risk is generally manifested through changes in the security's credit spread.

WCB's investment portfolio is exposed to fixed income pricing risk mainly through participation in direct holdings of fixed income securities and, to a lesser degree, investments in a nominal Canadian bond pool, a global fixed income mandate and a Canadian mortgage pool.

The table below presents the effects of a change in the credit spreads of 50 and 100 bps on the non-government portion of the direct holdings of fixed income securities within the bond portfolio:

($ thousands)	2010		2009	
Change in nominal interest rate	+50 bp	+100 bp	+50 bp	+100 bp
Nominal bonds	$ (21,922)	$ (43,844)	$ (14,736)	$ (29,471)

[ii] *One basis point (bp) equals 1/100 of 1%; 50 bps = 50/100 of 1% or 0.5%.*

Foreign currency risk

Currency risk is the risk that the value of financial assets and liabilities denominated in foreign currencies will fluctuate due to changes in their respective exchange rates.

The global fixed income segregated fund is fully hedged to the Canadian dollar by utilizing forward currency contracts. For its foreign-equity investments, WCB utilizes a currency overlay to hedge 50% of the aggregate currency exposure from foreign equities. The currency overlay is executed through forward foreign-exchange contracts on the U.S. dollar, euro and other major currencies. As the Canadian dollar moves against hedged foreign currencies, the resulting appreciation or depreciation on foreign investments in the balance sheets is reflected in the statements of operations as a 50% offsetting gain or loss.

WCB's largest currency exposure is to the U.S. dollar, with unhedged holdings of $628,405 (2009 – $542,089); euro exposure is next, with unhedged holdings of $90,371 (2009 – $106,155). For the year ended December 31, 2010, the net gain from the currency overlay was $36,075 (2009 – $105,347).

The table below presents the effects on the foreign equity mandate for segregated and pooled funds of a material change in the Canadian/U.S. dollar and Canadian/euro exchange rates:

($ thousands)	**2010**		2009	
	CAD/USD	**CAD/EURO**	CAD/USD	CAD/EURO
December 31 spot rate	1.0064	0.7502	0.9539	0.6648
10% appreciation in the Canadian dollar	1.1070	0.8252	1.0493	0.7313
Global mandate	$ (57,128)	$ (8,216)	$ (49,282)	$ (9,650)

Liquidity risk

Liquidity risk stems from the lack of marketability of a security that cannot be bought or sold quickly enough to prevent or minimize a loss. Lack of liquidity in the market acts as a constraint against optimum portfolio management decisions. Because WCB's operating cash flows are generally sufficient to fund ongoing obligations, market illiquidity is not a critical concern but, from time to time, it may hinder the efficient management of portfolio activities such as rebalancing the asset mix, reallocating assets between fund managers and funding major commitments.

Through a proactive cash management process that entails continuous forecasting of expected cash flows, WCB mitigates liquidity risk by minimizing the need for liquidations of portfolio assets in volatile markets. To cover unanticipated cash requirements when market conditions are unfavourable, WCB has negotiated a standby line of credit of up to $20 million, which has not been drawn down as at December 31, 2010. Given its stable operating cash flows, active cash management and credit facilities in place, WCB does not believe it has significant liquidity risk.

Securities-lending risk

To generate additional income, WCB participates in a securities-lending program sponsored by its custodian. Under this program, the custodian may lend WCB's investments to eligible third parties for short periods. These loans are secured against loss with marketable securities having a minimum fair value of 102% of the loan. The custodian is contractually obligated to indemnify WCB for any losses resulting from inadequate security. For 2010, securities-lending transactions related to segregated funds generated income of $895 (2009 – $679).

Counterparty default risk

Counterparty default risk arises from the possibility that the issuer of a debt security, or the counterparty to a derivatives contract, fails to discharge its contractual obligation to WCB.

To mitigate counterparty default risk, WCB ensures that the credit ratings of counterparties do not fall below an acceptable threshold. Issuers of debt securities will have at least a B- or equivalent score from a recognized credit-rating agency, or must meet other stringent investment criteria. Counterparties for derivative contracts will have at least an A- score or equivalent from a recognized credit-rating agency.

As at December 31, 2010, the aggregate amount of fixed income securities with counterparty ratings below BBB- within WCB's segregated funds was $91,384 (2009 – $34,290). WCB has additional counterparty default risk exposure through its investments in various pooled funds.

WCB's Investment Policy also imposes stringent restrictions with respect to material concentration in any single asset class, sector, fund and counterparty. Each fund is closely monitored for compliance to ensure that aggregate exposures do not exceed those investment constraints.

Derivatives risk

Although derivatives represent an important component of WCB's risk management strategy, the portfolio does not contain any derivatives intended for speculative or trading purposes. An example of derivatives used for risk mitigation is the currency overlay described in the currency risk section, which is a partial hedge of the currency exposure. From time to time, derivatives are also utilized as a portfolio management technique to replicate a target asset mix or achieve certain asset exposures when it is not possible or cost-effective to hold securities directly.

The notional value of a derivative contract used in a hedging arrangement represents the exposure that is being hedged, and is the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional amounts are not indicative of the credit risk associated with such derivative contracts and are not recognized in these financial statements. WCB's credit exposure is represented by the replacement cost of all outstanding contracts in a receivable (positive fair value) position. Counterparty default risk with respect to derivative contracts is mitigated in accordance with investment guidelines described in the earlier section on counterparty default risk.

The table below presents the notional principal, as well as the fair value, of all open derivative contract positions in segregated funds as at December 31, 2010:

($ thousands)		Term	**2010**		2009	
	Asset Mandates	Within 1 year	**Notional Principal**	**Fair Value**	Notional Principal	Fair Value
Asset replication contracts						
Equity index futures contracts	Global equities	100%	$ -	$ (50)	$ -	$ -
Bond futures contracts	Global fixed income	100%	103,590	1,166	69,972	590
			103,590	1,116	69,972	590
Foreign-exchange contracts						
Currency overlay forward contracts	Global equities/infrastructure	100%	1,008,857	16,838	960,903	16,452
Forward foreign-exchange contracts	Global equities/fixed income	100%	797,041	5,719	458,805	2,818
			1,805,898	22,557	1,419,708	19,270
			$1,909,488	$ 23,673	$1,489,680	$ 19,860

WCB also has indirect exposure to derivatives risk through its pooled investments but they do not contain any derivatives intended for speculative or trading purposes.

8. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	2010					2009
	Cost	**Work in Progress**	**Total**	**Accumulated Depreciation**	**Net Book Value**	Net Book Value
Land	$ 1,092	$ -	$ 1,092	$ -	$ 1,092	$ 1,092
Buildings	38,530	5,654	44,184	16,924	27,260	22,295
Leasehold improvements	1,590	-	1,590	886	704	758
Equipment	18,548	3,228	21,776	9,965	11,811	10,446
	$ 59,760	$ 8,882	$ 68,642	$ 27,775	$ 40,867	$ 34,591

9. INTANGIBLE ASSETS

($ thousands)	2010					2009
	Cost	**Work in Progress**	**Total**	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Computer software	$ 111,488	$ 5,952	$ 117,440	$ 94,215	$ 23,225	$ 26,561

10. PAYABLES AND ACCRUALS

($ thousands)	**2010**	2009
Partnerships in Injury Reduction rebates	$ 81,204	$ 71,446
Accrued employee benefits	31,795	28,655
Net premium revenue adjustments	-	24,238
Other	27,759	18,615
	$ 140,758	$ 142,954

Partnerships in Injury Reduction rebates (Note 14) are paid to those employers that have met the eligibility requirements. Net premium revenue adjustments represent amounts collected from employers in excess of adjusted premiums related to yet-to-be-reported insurable earnings adjustments.

11. DIVIDENDS PAYABLE

The table below is a reconciliation of the changes in the dividends charged to the Fund Balance and payable to employers that have met the eligibility criteria for the premium year:

($ thousands)	Change in Fund Balance		Dividends Payable	
	2010	2009	**2010**	2009
Special dividend, beginning of year			$ 500	$ 4,373
Payment of prior years' dividends			(563)	(3,956)
			(63)	417
Adjustment of prior years' accruals	$ 63	$ 83	63	83
Outstanding balance from prior years			-	500
Special dividend authorized for the year	230,128	-	230,128	-
Special dividend, end of year	$ 230,191	$ 83	$ 230,128	$ 500

12. CLAIM BENEFIT LIABILITIES

Claim benefit liabilities have been independently valued as at December 31, 2010 by WCB's external actuary. Claim benefit liabilities include a provision for all benefits provided by current legislation, WCB policies and administrative practices. These liabilities also include a provision for the future expenses of administering those benefits, including funding obligations to the Appeals Commission and Medical Panel Office. No provision has been made for claims related to known latent occupational diseases where the claim has not yet been reported and the year of disablement would be in a subsequent period. Claim benefit liabilities also do not include a provision for benefit costs of self-insured employers.

Since the claim benefit liabilities of WCB are of a long-term nature, the actuarial assumptions and methods used to calculate the reported claim benefit liabilities are based on considerations of future expenditures over the long term. As the determination of these liabilities requires assumptions about economic and other events that may occur many years in the future, but which are based on best information as at the valuation date, a significant degree of professional judgment must be exercised in developing these assumptions. Accordingly, changes in future conditions within one year of the financial statement date could require a material change in the recognized amounts.

Estimated future expenditures are expressed in constant dollars and then discounted at the assumed real rate of return on investments (i.e., the difference between expected long-term investment earnings and the expected long-term general inflation rate). The expected long-term investment earnings assumption is currently set using a 70% confidence level, which provides a margin for adverse deviation.

KEY ACTUARIAL ASSUMPTIONS

The table below presents the annual rates for key long-term economic assumptions used to determine the claim benefit liabilities:

	2010	2009
Nominal rate of return, years 1-4	4.55%	5.58%
Nominal rate of return, years 5 and beyond	5.58%	5.58%
General inflation rate	2.50%	2.50%
Real rate of return, years 1-4	2.00%	3.00%
Real rate of return, years 5 and beyond	3.00%	3.00%
Cost-of-living allowance	2.00%	2.00%
Wage escalation	3.50%	3.50%
Health care escalation	6.00%	6.00%

The table below presents a breakdown of WCB's total claim benefit liabilities by benefit category as at December 31, 2010, with details of the transactions during the year:

($ thousands)	**2010**							2009
	Short-Term Disability	**Long-Term Disability**	**Survivor Benefits**	**Health Care**	**Rehabilitation**	**Claim Administration[1]**	**Total Claim Liabilities**	Total Claim Liabilities
Claim benefit liabilities, beginning of year	$ 333,700	$ 2,131,500	$ 494,800	$ 1,500,000	$ 126,300	$ 320,700	$ 4,907,000	$ 4,905,700
Increase in claim benefit liabilities:								
Claim costs incurred								
Current-year injuries	151,614	163,242	24,858	305,050	33,160	84,710	762,634	730,139
Prior years' injuries	42,706	97,495	31,134	111,229	12,692	35,989	331,245	(25,411)
	194,320	260,737	55,992	416,279	45,852	120,699	1,093,879	704,728
Decrease in claim benefit liabilities:								
Claim payments made								
Current-year injuries	63,014	2,442	1,058	107,150	2,660	29,510	205,834	209,839
Prior years' injuries	88,006	142,795	43,934	142,229	33,992	65,189	516,145	493,589
	151,020	145,237	44,992	249,379	36,652	94,699	721,979	703,428
Claim benefit liabilities, end of year	$ 377,000	$ 2,247,000	$ 505,800	$ 1,666,900	$ 135,500	$ 346,700	$ 5,278,900	$ 4,907,000

[1] *Claim Administration payments of $94,699 (2009 – $92,496) are comprised of general claim administration (see Note 17) of $86,287 (2009 – $83,253), Appeals Commission of $8,143 (2009 – $8,979) and Medical Panel Office of $269 (2009 – $264).*

CHANGES IN CLAIM BENEFIT LIABILITIES

The table below is a reconciliation of the major changes in the claim benefit liabilities during the year:

($ thousands)	2010		2009
Claim benefit liabilities, beginning of year		$ 4,907,000	$ 4,905,700
Add (deduct) changes in liabilities:			
Provision for future costs of current-year injuries		556,800	520,300
Interest accrued on the liabilities		259,000	257,900
Payments for prior years' injuries, excluding self-insured employers		(507,172)	(485,333)
		5,215,628	5,198,567
Add impact of policy changes:		12,100	700
Add (deduct) changes in actuarial methodology and experience:			
Changes in actuarial methods and assumptions:			
Health care escalation rate change from 6.75% to 6.0%		-	(134,400)
New incidence rates for outstanding economic loss payments		-	(59,500)
Health care benefits adjustments		-	61,800
Change in the real rate of return	$ 153,200		-
Other changes in methods and assumptions	11,000	164,200	34,700
Claims experience (gains) and losses:			
Difference between actual and expected long-term cost-of-living adjustments and inflation	(40,100)		(82,000)
Actual costs less than expected	(26,600)		(86,300)
Other experience gains	(46,328)	(113,028)	(26,567)
		63,272	(291,567)
Claim benefit liabilities, end of year		$ 5,278,900	$ 4,907,000

SENSITIVITY OF ACTUARIAL ASSUMPTIONS

The most significant assumption in the determination of the claim benefit liabilities is the real rate of return. The real rate of return is the assumed rate of return in excess of the assumed inflation rate. A reduction in the assumed real rate of return would increase the actuarial present value of the claim benefit liabilities.

Health care benefits represent approximately 32% of the claim benefit liabilities. An increase in the assumed health care escalation rate would result in an increase in the claim benefit liability for health care.

The table below presents key assumptions used to determine the claim benefit liabilities and the sensitivity of the liabilities to an immediate 0.25% increase or decrease in the assumed rates:

($ thousands)	2010		2009	
+/- % change on assumed rates	**+0.25%**	**-0.25%**	+0.25%	-0.25%
Real rate of return	$ (152,100)	$ 158,700	$ (134,800)	$ 141,800
Health care escalation rate	$ 57,700	$ (54,800)	$ 51,500	$ (49,200)

13. EMPLOYEE FUTURE BENEFITS

LONG-TERM DISABILITY PLAN

WCB administers a non-contributory long-term disability (LTD) income continuance plan for its employees, with the WCB Accident Fund covering the obligations of the plan. LTD benefits are the sum of all liabilities related to claims that have occurred in the period.

The cost of benefits is actuarially based on claims outstanding, a market interest rate, management's best estimate of projected costs and the expected benefit period. Current benefit cost represents the actuarial present value of the expected future payments. Interest cost represents the amount required in each year to build up the liability over the projected benefit period to its future value. Actuarial gains and losses arise from assumption and/or methodology changes and claim experience related to the benefit obligation. Such gains and losses that exceed 10% of the benefit obligation are amortized over the expected average benefit period.

PENSION PLANS

Employee post-retirement benefits are provided through contributory multi-employer defined benefit pension plans sponsored by the Province of Alberta, namely the Management Employees Pension Plan (MEPP) and the Public Service Pension Plan (PSPP). As a plan participant in these multi-employer pension plans, WCB's expense for MEPP and PSPP for the year ended December 31, 2010 is equivalent to the aggregate annual contributions of $10,665 (2009 – $7,740). Employer contribution rates on pensionable earnings are as follows:

MEPP: 18.0% (2009 – 18.0%)
PSPP: 9.1% up to YMPE [iii] (2009 – 6.69%), 13.0% above YMPE (2009 – 9.55%)

At December 31, 2010, the MEPP and PSPP administrators reported plan deficiencies. For these plans, WCB has no further payment obligations once the contributions have been paid; therefore, no liability has been recognized in respect of these plan deficiencies.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

WCB sponsors a non-contributory supplemental executive retirement plan (SERP), with the WCB Accident Fund covering the obligations of the plan. Earnings of senior management generally exceed the threshold earnings for the maximum pension benefit permitted under the federal Income Tax Act. Under the terms of the SERP, senior management is entitled to receive supplemental retirement payments that bring their total pension benefits to a level consistent with their total earnings. Future pension benefits are based on the participants' years of service and earnings.

The cost of benefits is actuarially determined using the projected benefit method prorated on service, a market interest rate, management's best estimate of projected costs and the expected years of service until retirement. Current benefit cost represents the actuarial present value of the benefits earned in the current period. Current benefit costs are not cash payments in the period, but are the period expense for rights to future compensation. Interest cost represents the amount required in each year to build up the liability over the projected service period to its future value. Actuarial gains and losses arise from assumption and/or methodology changes and claim experience related to the benefit obligation, and are recognized immediately in current expense.

See Note 18 for a detailed breakdown of SERP costs.

[iii] *Year's Maximum Pensionable Earnings under the Canada Pension Plan ($47,200 in 2010; $46,300 in 2009).*

POST-RETIREMENT BENEFIT PLAN

WCB provides an unfunded post-employment benefit plan that provides dental and health care benefits to retirees on pension between the ages of 55 to 65. Plan costs are actuarially determined using the projected benefit method prorated on service. As plan participants pay part of the benefit cost, the benefit obligation represents the amount subsidized by WCB. Current benefit, interest costs and actuarial gains and losses are determined in a similar manner as the SERP costs, which were discussed in the previous section.

The table below is a summary of the costs and liability balances, as at December 31, 2010, of WCB's employee future benefit plans:

($ thousands)	2010			2009		
	LTD	SERP	Post Retirement	LTD	SERP	Post Retirement[3]
Accrued benefit liability, beginning of year	$ 14,253	$ 1,421	$ 2,682	$ 14,262	$ 1,062	$ -
Current benefit cost	2,461	292	218	820	274	-
Interest cost	524	118	177	717	92	-
Amortization of actuarial (gains) losses	(341)	-	-	(182)	-	-
Actuarial (gains) losses	n/a[1]	376	840	n/a[1]	(7)	2,682
Benefit payments	(1,677)	-	(90)	(1,364)	-	-
Accrued benefit liability, end of year[2]	$ 15,220	$ 2,207	$ 3,827	$ 14,253	$ 1,421	$ 2,682

[1] *LTD plan has unrecognized net actuarial gains for 2010 of $2,480 (2009 – $4,023).*

[2] *Accrued benefit liabilities are included in "Accrued employee benefits" under "Payables and accruals."*

[3] *An actuarial valuation of the Post Retirement obligation was completed for the first time in 2009.*

The table below presents key assumptions applicable to WCB-sponsored employee future benefit plans:

	2010			2009		
	LTD	SERP	Post Retirement	LTD	SERP	Post Retirement
Actuarial valuation date	12/31/2010	12/31/2010	12/31/2010	12/31/2009	12/31/2009	12/31/2009
Discount rate (nominal)	4.6%	5.9%	5.4%	5.5%	6.9%	6.2%
Health care inflation rate	5.0%	n/a	5.0%	4.9%	n/a	5.0%
Salary escalation rate	3.0%	4.0%	n/a	3.0%	4.0%	n/a

14. PREMIUM REVENUE

($ thousands)	2010	2009
Assessed premium revenue	$ 1,092,150	$ 960,849
Self-insured employer revenue (Note 19)	11,347	10,727
Other premium-related revenue	9,248	8,326
	1,112,745	979,902
Deduct: Partnerships in Injury Reduction rebates (Note 10)	81,204	71,446
	$ 1,031,541	$ 908,456

Assessed premium revenue includes an accrual of $5,529 (2009 – $51,410) for amounts collected from employers in excess of adjusted premiums related to yet-to-be-reported insurable earnings adjustments. The accrual has been determined using a statistical model that estimates the amount of unreported earnings based on actual returns processed to date and historical patterns of processed to unprocessed returns as at a specified point in time. Historically, accruals have ranged from -5.0% to 6.0% of total processed premiums.

Partnerships in Injury Reduction (PIR) rebates are paid to those employers that have met the eligibility requirements in achieving certain workplace safety targets as specified under the program. The estimated rebate amount is based on several factors, including premiums paid, year-over-year improvement on claims experience and safety performance relative to industry benchmarks, among others. Historically, the PIR rebate accrual has averaged 8% of total processed premiums.

For both premium and PIR accruals, the difference between actual and estimated amounts in past years has not been material.

15. INVESTMENT INCOME

Investment income[1] – net ($ thousands)	**2010**	2009
Interest income		
Bonds	$ 122,877	$ 128,168
Mortgages	11,181	8,711
Cash and cash equivalents	1,266	475
	135,324	137,354
Dividends		
Domestic equities	15,545	14,017
Foreign equities	23,392	18,655
	38,937	32,672
Realized gains (losses) on available-for-sale investments		
Bonds	51,517	(38,778)
Domestic equities	21,837	(13,746)
Foreign equities	(5,956)	(66,436)
Real estate	11,760	6,476
Infrastructure	(334)	39
	78,824	(112,445)
Derivatives		
Realized gains	33,185	156,964
Unrealized gains	23,673	19,860
	56,858	176,824
Property income		
Real estate	20,630	15,364
Infrastructure	5,446	3,232
	26,076	18,596
	336,019	253,001
Deduct:		
Other investment expense		
Impairment write-downs – Bonds	4,977	8,487
Impairment write-downs – Equities	2,110	22,555
Investment-related administration expense [2]	2,205	1,963
	$ 326,726	$ 219,996

[1] *Investment income is net of transaction costs, external management fees and expenses (e.g. custodial, audit, etc.) of $17,819 (2009 – $14,319) that are netted against the respective revenue source.*

[2] *Internal administration expenses are netted against investment income, but not attributed to specific revenue sources.*

IMPAIRMENT WRITE-DOWNS

WCB applies a three-step process for recognizing impairment losses on available-for-sale investments:

- identifying investments with significant unrealized losses;
- determining whether the decline in value is temporary or other-than-temporary; and
- removing the entire loss from AOCI and recognizing it in income.

Determining whether an investment is impaired is a matter of judgment. WCB interprets other-than-temporary as a decline in value in excess of normal volatility for 12 consecutive months. For securities whose decline in value is particularly severe, or those operating in a troubled sector, or where the prospects for recovery of carrying value is not probable within the expected holding period, the duration criterion may be waived. In applying judgment, WCB also considers such factors as market conditions, facts and circumstances concerning specific securities and their issuers, expectations of performance and the views of other knowledgeable parties, such as fund managers.

16. OTHER REVENUE

($ thousands)	2010	2009
Other	$ 37	$ 119
Millard Health[1]	833	1,154
	$ 870	$ 1,273

[1] *Millard Health revenue is net of operating expenses of $26,002 (2009 – $24,974).*

17. ADMINISTRATION EXPENSES

($ thousands)	2010	2009
Salaries and employee benefits	$ 126,838	$ 120,041
Office and technology	24,059	24,340
Amortization of intangible assets	8,270	10,493
Depreciation of property, plant and equipment	2,912	2,227
Building operations	6,487	7,442
Consulting fees	2,243	2,356
Travel, vehicle operation and other	1,231	1,200
	172,040	168,099
Deduct:		
Claim administration costs	86,287	83,253
Investment management expenses charged to investment income	2,205	1,963
Recovery of costs	4,161	4,276
	$ 79,387	$ 78,607

18. SALARIES AND BENEFITS

The table below presents total compensation of the directors and senior management of WCB following the recommendations of the Salary and Benefits Disclosure Directive issued by the Treasury Board of Alberta:

($)	Base Salary[1]	Other Cash Benefits[2]	Non-Cash Benefits[3]	SERP[4]	Total
			2010		
Chair, Board of Directors[5]	$ -	$ 95,834	$ 3,879	$ -	$ 99,713
Board Members[5]	-	163,189	12,748	-	175,937
President & Chief Executive Officer	354,000	189,000	35,940	49,200	628,140
Vice-president, Disability and Information Management	290,000	107,500	30,593	32,500	460,593
Vice-president, Customer Service and Risk Management	264,000	98,400	31,530	33,700	427,630
Vice-president, Employee and Corporate Services	227,000	74,100	31,494	20,800	353,394
Chief Financial Officer	264,000	98,400	32,510	25,500	420,410
Secretary and General Counsel	222,000	72,600	33,381	23,500	351,481
			2009		
Chair, Board of Directors[5]	$ -	$ 94,840	$ 3,969	$ -	$ 98,809
Board Members[5]	-	173,822	14,185	-	188,007
President & Chief Executive Officer	344,000	181,110	32,946	46,300	604,356
Vice-president, Disability and Information Management	282,000	104,700	29,917	30,700	447,317
Vice-president, Customer Service and Risk Management	257,000	96,310	30,867	31,600	415,777
Vice-president, Employee and Corporate Services	220,500	72,150	30,840	19,600	343,090
Chief Financial Officer	257,000	95,950	31,817	24,100	408,867
Secretary and General Counsel	216,000	78,684	32,889	22,100	349,673

1 *Base salary is pensionable base pay.*

2 *Other cash benefits include performance awards, lump sum payments, honoraria, vacation pay and car allowances.*

3 *Non-cash benefits include employer's share of all employee benefits and contributions or payments made to or on behalf of employees, including statutory contributions, pension plan, health care, dental coverage, vision coverage, out-of-country medical benefits, group life insurance, accidental disability and dismemberment insurance, long-term disability plan, educational costs and professional and other memberships. No amounts are included for the value of parking.*

4 *Current service cost for the supplemental executive retirement plan (SERP). See Note 13 for details of the plan and the following table for the costs related to each named executive officer.*

5 *The Chair of the Board of Directors and the nine Board Members are part-time positions.*

The current service cost for senior management under the SERP is presented in the table below:

($)	2010				2009	
	Current Service Cost[1]	Other Costs[2]	Net Cost	Accrued Obligation Dec. 31, 2010	Net Cost	Accrued Obligation Dec. 31, 2009
President & Chief Executive Officer	$ 49,200	$ 120,900	$ 170,100	$ 539,300	$ 67,300	$ 369,200
Vice-president, Disability and Information Management	32,500	93,700	126,200	321,200	41,600	195,000
Vice-president, Customer Service and Risk Management	33,700	59,800	93,500	295,400	44,100	201,900
Vice-president, Employee and Corporate Services	20,800	39,600	60,400	185,400	27,000	125,000
Chief Financial Officer	25,500	43,100	68,600	169,100	29,600	100,500
Secretary and General Counsel	23,500	35,100	58,600	199,500	30,600	140,900
Other senior management and inactive members	106,900	102,000	208,900	497,800	119,000	288,900
	$ 292,100	$ 494,200	$ 786,300	$ 2,207,700	$ 359,200	$ 1,421,400

[1] *Current service cost is the actuarial present value of future benefit obligations arising from employee service in the current period.*

[2] *Other costs include interest on the liability and actuarial losses arising primarily from a change in the discount rate from 6.9% to 5.9%.*

19. SELF-INSURED EMPLOYERS

The financial statements include the effects of transactions on behalf of self-insured employers who directly bear the cost of their workers' claims and an appropriate share of administration expenses. Currently, the Federal Government of Canada is the only self-insured employer. This is a contractual relationship in accordance with the Government Employees Compensation Act. Certain government-related entities and railways are responsible for the cost of injuries to their workers that occurred when they were self-insured in prior years.

Included in the balance sheets is $1,952 (2009 – $1,836) for receivables. Presented below are the aggregate amounts of premiums and offsetting expenses included in the statements of operations:

($ thousands)	2010	2009
Claim costs	$ 9,031	$ 8,519
Administration	2,316	2,208
Self-insured employer revenue (Note 14)	$ 11,347	$ 10,727

20. INJURY REDUCTION

WCB has a statutory obligation to reimburse the Alberta Minister of Finance and Enterprise a portion of the costs associated with administration of the Occupational Health and Safety Act. Funding is also provided to industry-sponsored safety associations to promote improved workplace safety practices. Funding costs incurred are recovered as components of the premium rate charged annually to employers.

The following table shows the amounts paid under these programs:

($ thousands)	2010	2009
Occupational Health and Safety	$ 27,545	$ 26,400
Safety associations	16,915	13,193
	$ 44,460	$ 39,593

21. RELATED-PARTY TRANSACTIONS

Included in these financial statements are transactions with various Alberta Crown corporations, departments, agencies, boards and commissions related to WCB by virtue of common influence by the Government of Alberta. Routine operating transactions in the ordinary course of business with related parties are settled at prevailing market prices under normal trade terms.

Included in related-party transactions are certain funding obligations relating to Occupational Health and Safety, the Appeals Commission and the Medical Panel Office that are in accordance with the applicable legislation and/or regulations. Funding costs incurred are recovered as components of the assessed premium rate charged to employers. The amounts outstanding at December 31 and transactions throughout the year related to statutory funding obligations are as follows:

($ thousands)	2010	2009
Receivables	$ -	$ 2
Payables and accruals	$ 1,919	$ 2,014
Expenses	$ 35,635	$ 35,335

22. COMMITMENTS

WCB has obligations under long-term non-cancellable contracts for land, office space, leased equipment and commitments for purchases of goods and services. The following is a schedule of future expenditure commitments:

($ thousands)	**2010**	2009
2010	$ -	$ 15,100
2011	14,109	10,467
2012	6,544	3,118
2013	3,982	1,940
2014	2,597	1,746
Beyond	8,570	8,570
	$ 35,802	$ 40,941

23. CONTINGENCIES AND INDEMNIFICATION

LEGAL PROCEEDINGS

WCB is party to various claims and lawsuits related to the normal course of business that are currently being contested. In the opinion of management, the outcomes of such claims and lawsuits are not determinable. Based on the total amount of all such actions, however, WCB has concluded that their outcomes, either individually or in aggregate, will not have a material effect on the results of operations or financial position.

INDEMNIFICATION AGREEMENTS

In the normal course of business, WCB enters into contractual agreements that contain standard contract terms to indemnify certain parties against loss. The terms of these indemnification clauses will vary based upon the contract and/or the occurrence of contingent or future events, the nature of which prevents WCB from making a reasonable estimate of the potential amount that may be payable to those contractual parties. Such indemnifications are not significant, nor has WCB made any payments or accrued any amounts in the financial statements in respect of these indemnifications.

24. BUDGET

The Board of Directors approved the 2010 budget in October 2009.

25. COMPARATIVE FIGURES

Certain comparative figures for 2009 have been reclassified where required to conform to the current year's presentation and disclosure.

Appendix: Glossary

Actuarial required real rate of return

The real rate of return (nominal rate less inflation) on actuarially matched investment assets that will generate sufficient income to cover the interest requirement on the liability. Actuarially matched assets represent the sum that must be invested to earn a real rate of return (identical to the real discount rate) to fully discharge the actuarial liability at maturity. See also ***real discount rate***.

Asset-liability management

A risk management approach that ensures sufficiency of resources to discharge specified obligations by managing the risk characteristics of invested assets relative to liabilities for such factors as yields, duration, volatility and default.

Asset-liability study

A financial model for determining the appropriate amount and mix of investment assets, given a specified level of risk, to generate a return that is sufficient to fund the interest requirement of matched claim benefit liabilities.

Asset overlay

A portfolio management strategy designed to replicate an asset or portfolio position without actually holding securities directly. The desired position is achieved by entering into a futures contract or option on the future price movement of a security or an index.

Average premium rate

Calculated as total revenue requirements divided by the projected insurable earnings for the premium year.

Comprehensive income

The change in equity (or ***net assets***) of an enterprise during a period from all transactions and events other than investments by and distributions to owners. Comprehensive income is composed of operating income and other comprehensive income, which includes those revenues, expenses, gains and losses that, in accordance with the primary sources of GAAP, are recognized in comprehensive income but excluded from operating income.

Currency overlay

A foreign-currency risk management strategy used in international investment portfolios to separate the management of currency risk from the asset allocation and security selection decisions of the fund managers.

Derivative

A ***financial instrument*** whose characteristics and value depend on the characteristics and value of an underlying security, typically a commodity, bond, equity or currency. Examples of derivatives include futures and options. Derivatives are used to manage the risk associated with the underlying security, to protect against fluctuations in value or to profit from periods of inactivity or decline.

Fair value

The amount of the consideration that would be agreed to in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. In the context of investments, fair value is generally synonymous with market value.

Financial instrument

Any contract that gives rise to a financial asset (e.g., cash equivalent, accounts or note receivable, share security) of one party and a financial liability (e.g., accounts or note payable, bond) or equity instrument (e.g., stock option, warrant) of another party.

Financial risk

The possibility or chance that an investment's return will be other than expected, positively or negatively. In general, financial risk has a negative meaning, as in the possibility of losing some or all of the original investment, or adverse changes in its cash flows. For a specific investment, risk is usually measured by calculating the standard deviation of its historical or average returns. See also ***risk***.

Fund management

Both a framework and a process designed to maintain a level of funding to ensure the following results:

- Compensation benefits are sustainable and protected.
- Premium rate and funding requirements are predictable.
- The Accident Fund remains solvent.

The Funding Policy, which embodies these objectives, provides direction for management in financial planning and decision making. Key processes for fund management include risk assessment, ***asset-liability management***, application of funding rules, compliance monitoring and governance.

Funded Position

The excess of total assets less total liabilities, expressed either in dollar terms (see ***net assets***) or as a ratio of total assets to total liabilities. The Funded Position is the measure of financial solvency or the sufficiency of assets to meet all obligations. It is the aggregate amount of accumulated equity generated by operating surplus, reserves and other comprehensive income.

Funded ratio

The Funded Position expressed as a percentage of total liabilities, indicating the amount of accumulated surplus, investment holding gains or losses, and reserves available to fund unexpected increases in liabilities. Funded ratio is the key metric of financial solvency used in ***fund management***.

Hedging

A portfolio management activity designed to modify an entity's exposure to one or more financial risks by creating an offset between changes in the fair value of or the cash flows attributable to the hedged item and the hedging item (or the changes resulting from a particular risk exposure relating to those items).

Mark to market

The accounting process of adjusting the book or carrying value of a security, account or portfolio to its current market value in the financial statements. When market values are not available or are unreliable, an alternative approach is mark to model, which uses the output of a valuation technique or financial model to approximate the expected value.

Meredith Principles

The framework outlined in then-Chief Justice of Ontario Sir William Meredith's report on workers' compensation in 1913, now commonly known as the Meredith Principles:

- Workers receive compensation benefits regardless of fault for work-related injuries.
- Employers share collective liability for the costs of work-related injuries and, in return, employees waive the right to sue.
- Injured workers are entitled to prompt payment of benefits, and future payments are guaranteed.
- The workers' compensation agency has exclusive jurisdiction over all legal matters arising out of the enabling legislation.
- The agency is financially independent of the government and enjoys full autonomy over all administrative and adjudicative matters.

Net assets

The excess of total assets less total liabilities, another expression of ***Funded Position*** in dollar terms. When total liabilities exceed total assets, the deficit is known as unfunded liability.

Real discount rate

The rate used to discount the actuarial projections of all future claim benefit payments back to present value. The rate is based on the real rate of return that the investment portfolio is expected to generate over the long term. The real discount rate is also called the net discount rate or the ***actuarial required real rate of return*** when applied in a portfolio context.

Real rate of return

The annual percentage return realized on an investment, adjusted for changes in prices due to inflation or deflation.

Return

The interest and dividend income and the capital gains or losses associated with an investment. The return is usually quoted as a percentage of the investment's market value (market return) or its book value (book return). Performance of an investment or a pool of investments is the actual rate of return over a given evaluation period.

Risk

In general, the possibility or chance that a future event or outcome will be different than expected, either positively or negatively. See also ***financial risk***.

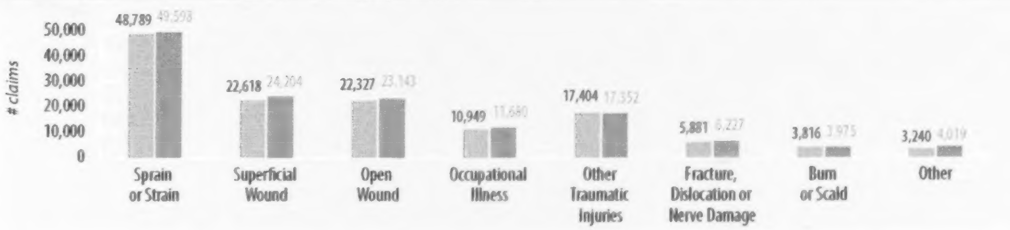
2010 Summary of Claims Administered

	2010		2009	
Active claims as of January 1		25,614		27,489
New lost-time claims	24,652		26,486	
New medical aid only claims	110,372		113,712	
Total new claims reported	**135,024**		**140,198**	
Recurrent claims[1]	24,283		34,758	
	159,307	159,307	174,956	174,956
Total claims administered		**184,921**		**202,445**

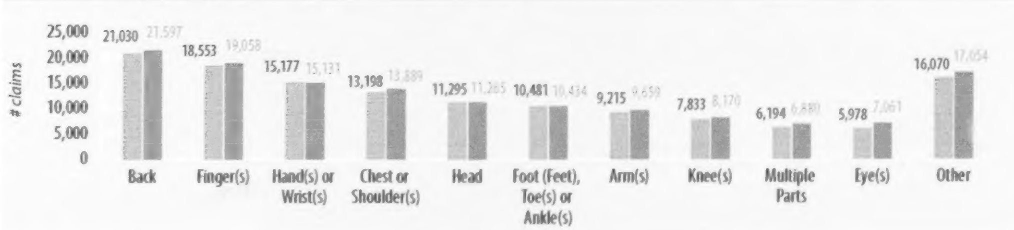
[1] *Previously inactive claims that required further adjudication or case mangement. Claims may reopen for a number of reasons such as payments for medical aid or requests for further compensation benefits.*

Ineligible claims	**2010**	2009
LOST-TIME CLAIMS		
Insufficient information available to process claim	203	194
Not covered under *Workers' Compensation Act*	92	113
Injury or illness not arising out of/in course of employment	2,060	1,910
MEDICAL AID ONLY CLAIMS		
Insufficient information available to process claim	4,289	4,158
Not covered under *Workers' Compensation Act*	1,883	1,831
Injury or illness not arising out of/in course of employment	3,492	3,661

New claims by nature of injury 2010 2009



New claims by part of body 2010 2009



Number of modified-work-only claims as a percentage of claims reported

2006	2007	2008	2009	**2010**
14.9%	15.7%	17.1%	14.8%	15.7%

2010 Year at a Glance

	2010	2009
Number of workers covered	1,708,197	1,730,758
Lost-time claim rate (per 100 workers)[1]	1.5	1.6
Disabling-injury rate (per 100 workers)[1]	2.7	2.8
Number of new claims reported	135,024	140,198
Number of lost-time claims[1]	25,500	27,100
Number of recurrent claims[2]	24,283	34,758
New non-economic loss and permanent disability awards	2,954	2,828
Fatality claims accepted	136	110
Ineligible lost-time claims (% of all lost-time claims)	9.6%	8.4%
Number of new requests for review to the DRDRB	2,811	2,676
Return-to-work percentage	93.3%	93.1%
Estimated average claim duration (TTD days)	36.1	35.2
Claim costs (thousands)	$1,093,879	$704,728
Registered employers	139,343	137,273
Premium revenue (thousands)	$1,031,541	$908,456
Average collected premium rate (per $100 of insurable earnings)	$1.31	$1.24
Investment revenue (thousands)	$326,726	$219,996
Funded position (thousands)	$1,662,029	$1,433,193
Funded ratio (per cent funded)	129.4%	128.4%

[1] *Lost-time claims and the lost-time claim and disabling-injury rates are projected. This approach is taken to ensure claims for accidents occurring in 2010 but not reported by year-end are considered.*

[2] *Previously inactive claims reopened for a number of reasons including payments for medical aid or requests for further compensation benefits.*

Workers' Compensation Board Alberta

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